Nation's Business

A USEFUL LOOK AHEAD

SEPTEMBER 1957

TOP MANAGERS' THREE BIGGEST PROBLEMS

PAGE 32

A NATION'S BUSINESS SPECIAL SERVICE

Adverse effects of expanding government

Library of Congress research team spotlights impact of spreading socialism PAGE 38

the **exciting design** in office furniture is being done with **wood**

Today's new designs in warm, quiet wood answer the desire of modern businessmen for offices which are both *livable* and *workable.* And the preference for wood's ingrained individuality is not confined to the private office. Executives are discovering wood's talent for promoting efficiency, morale and good public relations in the general office as well. Whether replacing old desks and chairs, or equipping new space, let your office furniture dealer demonstrate why it's "better business to do it with wood."

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Here's something new in telephone service...

Millions of people can now dial long distance calls

And millions more will enjoy the added speed and convenience of Direct Distance Dialing . . . through Bell System's continuing program of research and development.

Direct Distance Dialing—one of the greatest improvements in modern telephone service—is being made available rapidly to more and more people throughout the country.

By the end of this year about 5,300,000 of our customers, in some 440 localities, will have nationwide DDD and will be able to dial directly up to 35,000,000 telephones. (Over 11,000,000 customers already are able to dial directly to nearby cities and towns.)

DDD brings with it new standards in convenience and speed of service. Many calls of as much as 3000 miles are now dialed directly and go through in a matter of seconds. This is made possible by ingenious electrical switching systems that pilot your call directly to the particular telephone you want out of many millions. If one route is busy, another is automatically selected.

Another remarkable feature is the automatic accounting system for taking down the number you called, the date, and how long you talked. Station-to-station calling—already the quickest way to telephone out-of-town—becomes even faster with DDD.

This development is one more big step in the never-ending program to make telephoning more convenient to more and more people.

Working together to bring people together . . . Bell Telephone System

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ADVERSE EFFECTS OF EXPANDING GOVERNMENT

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management's WASHINGTON LETTER

▶FEDERAL GOVERNMENT LENDS $1 for each $5 lent by private banks.

Some states depend on Uncle Sam for 30 per cent of their budgets.

Some occupants of public housing projects refuse overtime work and promotions for fear of being made to vacate their project homes.

Largest government electric plant is more than twice as big as largest private plant.

These findings--and others--are by special research team at Library of Congress.

Condensed this month in NATION'S BUSINESS, study reveals adverse effects of expanding government on free enterprise.

Nine-part study covers:

Taxation, federal lending agencies, public power, reclamation.

Agriculture, public housing, federal grants, foreign aid, federal interference in education.

Report starts on page 38.

▶TEN PER CENT BOOST IN TAX cases is forecast for coming 3 years.

Assistant Attorney General Charles Rice says estimate is conservative.

Reason for increase:

Combination of high tax rates, peak business activities.

Additional factors:

Legal problems growing out of excess profits tax law and 1954 revision of federal tax code.

Item: Average 1947 case involved $60,000. Now it's $148,000.

Total amount involved in civil tax litigation--$700 million.

▶CONGRESS WILL DIG FOR FACTS on numerous fronts vital to business in fall and winter months between sessions.

Here's outlook for inquiries:

Wage controls--Hot subject, House subcommittee on minimum wage will hold field hearings starting next month on West Coast.

Pension, welfare funds--Field hearings will be run by House Education and Labor subcommittee, looking toward legislation for tighter controls.

Administered prices--Kefauver investigation will continue, will turn to farm machinery, newsprint, aluminum, baking industries.

Other congressional investigations will cover:

Small business problems in relation to defense contract procurement.

Federal fiscal policy, taxes, price spread on agricultural commodities, foreign trade policy.

▶BROADER RACKETS INVESTIGATION is coming.

McClellan committee will go beyond labor corruption, dig into some common labor-management practices and activities.

Examples:

Political activities, organizational picketing, secondary boycotts, undemocratic union procedures, management tactics to prevent unionization.

Note: Your secondary boycott experiences may interest committee.

You can write Paul Kamerick, care committee, Senate Office Building, Washington, 25, D.C.

▶BUSINESS OUTLOOK: Next year will see gross output reach $450 billion.

Forecast's based on expected rise as seen by Washington economists in and out of government.

But there's a cloud on horizon:

How much will reflect inflation?

Informed guess is that about half the rise will be higher prices.

Washington thinking is that price rise for coming 6 months will be at slower rate than during past year.

But that depends partly on effect of anti-inflationary steps government's considering.

Other important factors also could influence production and sales.

For comparison: Gross national product's probably going to average about $435 billion this year.

The $450 billion annual rate will be reached about late spring.

▶EMPLOYE ABSENTEEISM WILL JUMP this fall, winter.

Reason: Onset of Asiatic flu epidemic in U. S.

You can expect as many as 1 out of 5 of your workers to lose time from work. Big problem is that many workers may

be ill at same time. Aftermath infections, such as pneumonia, also will take toll.

Epidemic will be most damaging to firms geared to peak activity during Christmas season.

But you can do something to lessen flu's impact on your business.

Vaccine that's about 70 per cent effective will be ready starting this month.

Six drug manufacturers will work round-the-clock shifts 7 days a week to reach production goals.

Many firms are planning to cooperate with health officials for mass inoculation.

Note: Drug makers also are stepping up production of penicillin, other antibiotics to combat other respiratory diseases sure to follow.

▶PENSION, RETIREMENT FUNDS by 1965 will reach $100 billion.

New study shows reserves already exceed $70 billion.

They've grown 10-fold since 1940.

About 15 million persons now get benefits--compared to 3 million 17 years ago.

Public pension programs paid out $4 billion in 1947, paid $11 billion in 1955 and by 1965 figure will zoom to estimated $20 billion yearly.

▶WHAT PHILOSOPHY MOTIVATES nation's business leaders?

Answer is contained in findings of big new national survey of company presidents.

Most respondents cited the Golden Rule, fairness, honesty or trying to see other man's point of view.

Other popular rules of conduct:

Loyalty, common sense, objectivity, integrity.

A few mentioned daily prayer, faith in God.

Sample comments:

"I assume that subordinates know more than I do until proven otherwise."

"You make mistakes frequently in business. Review them, pull them apart, see what you did wrong, then build again. Never fail to treasure your blunders. They're valuable."

"If a job and associates not congenial, change job."

"Run the job as though the property were your own--instead of belonging to 22,000 stockholders--and do not make the same mistake twice."

See page 32.

▶TOP EXECUTIVES' DAYDREAMS also were explored in survey of presidents.

Question asked what one thing presidents had never done that they would like to do.

Surprisingly, few of the answers related to business.

Many indicated a desire to travel--especially by boat.

One said he would like to produce a movie; another, write a book.

In apparent seriousness, one said: "Go to the moon."

▶TAX CUT PROSPECTS next year depend on government economy drive.

Government departments, agencies have been ordered--on behalf of President--to hold spending at no higher than fiscal 1957.

That total:

$69.3 billion.

You can look for trouble ahead, however.

Spending so far this year is almost $2 billion higher than same period year ago.

Why? One unofficial explanation:

Some of last fiscal year's postponed spending is showing up in fiscal '58 totals.

▶UNEMPLOYMENT INSURANCE COSTS keep rising as wages go up and states increase layoff pay.

Employers have paid more than $1.5 billion into unemployment funds in the past year.

Slightly less was paid out to idle workers.

Figures are about $209 million higher than year ago.

This year 21 states have passed legislation boosting maximum unemployment benefits.

Boosts range from $2 to $11 a week.

Forty states--in which about 90 per cent of the covered workers are employed--pay individual maximum benefits ranging from $28 to $36 a week.

With dependents, benefits are as high

as $70 a week in Alaska, $60 in Connecticut.

Six states increased the duration of weekly benefits.

Except for Pennsylvania, top is 26 weeks. Pennsylvania will pay idle workers for as long as 30 weeks.

▶LOOK FOR UPCOMING RESULTS of National Housing Inventory--first Census Bureau has made since 1950.

It will show U. S. housing supply, with breakdown for major geographical regions, selected metropolitan areas.

It will show number of new dwelling units added by construction in 6-year period, demolition, fire losses, other information.

First data will be available this fall--all should be ready by Christmas.

You can get it from local field offices of Commerce Department, from Census Bureau or Superintendent of Documents, Washington 25, D. C.

▶HISS THE BUSINESSMAN--new parlor game will come under debate this fall at national personnel conference.

Special panel will discuss thinking behind recent TV plays, books, movies that have cast businessmen in unfavorable light.

Curious part is that some portrayals most unflattering to business have been lavish TV dramas paid for by commercial sponsors and carried into millions of U. S. homes.

At same time, business spends billions to tell its story to public, stress its community consciousness via public relations.

▶YOUR IDEAS CAN BE IMPORTANT to your company's operations long after you're gone.

In future years, for example, executives may wonder how problems they face were handled by you--and why you took action you did.

They can find out reasoning behind action by listening to your decision-making discussions with your managers on long-play recordings.

At least one firm already has been organized for sole purpose of making such records.

It specializes in recordings of business discussions which may prove useful in future years.

▶HERE'S CAPSULE REPORT on executive thinking on 2 subjects--as reflected in survey at management workshop:

1. Company heads believe employes already on payroll are as good as or better than most employe prospects brought in by professional recruiters.

2. Appraisal of employe's worth to firm is more reliable, useful when done by man's peers or those above him.

Executives suveyed think appraisal by subordinates normally is colored.

▶WE'RE LOSING GROUND IN BATTLE to obtain more usable highway space.

Look at these facts:

Since World War II we've added about 53,000 miles of highway lanes.

But autos produced in same period would stretch about 200,000 miles bumper to bumper.

If cars today were no longer than 1946 models, bumper to bumper line up of all produced would be estimated 85,000 miles shorter.

According to American Motors President George Romney:

Extra length alone of typical cars today, compared with 1946 models, has swallowed up entire mileage of added lanes of new highway.

Note: Major U. S. turnpikes today total 2,190 miles.

Tolls would cost you $31.68.

▶PROGRESS: Growing demand will require 160 million ton steel-making capacity in another 10 years, says steel official. That's boost from 133 million tons now...

By 1975 you'll be able to send mail by supersonic missile....

Long-range ballistic missiles will be ready for Air Force soon after fiscal 1960....

Aircraft industry has already invested $100 million private money in new facilities for missile program, with larger expenditures ahead....

Average industrial worker now can buy new car with 7 per cent fewer work hours than he could 10 years ago....

About 80 per cent of U. S. economy is based on products not in existence 75 years ago.

Letters from businessmen

First

Your August article, "New Balance Promises Greater Prosperity" represents one of the first references I have seen in a publication such as yours to the fundamental change that has occurred in the saving and spending habits of the American people.

WILLIAM D. ROSS, *Dean*
Louisiana State University

30 will profit

We have been quite interested in "Profit Squeeze Will Tighten," in the August issue of your splendid magazine, to which we subscribe. We would like to have 30 reprints of this article.

PAUL M. AUBRY
Sales Manager,
Cosa Corp.,
New York 17, N. Y.

Listeners write in

I have just finished reading with interest your fine article "Listening is a 10-Part Skill" (July). I would like to reprint this article in either full or condensed form in the Mutual of Omaha house magazine, *Criss Cross Currents.*

JOHN R. DIXON, *Editor*
Mutual of Omaha,
Omaha, Neb.

We received a great deal of practical good from the article "Listening is a 10-part Skill."

JOHN O. PARKER
Central Hudson Gas & Electric Corp.,
Poughkeepsie, N. Y.

Theme for future

"You'll Hire This Man in '65" (July) ties in well with the proposed theme of our Tenth Annual Real Estate Education Conference—the necessity of real estate training today to insure adequate leadership tomorrow.

K. M. NEARY
National Association of
Real Estate Boards

Tremendously revealing

Today my attention was directed to an article entitled "What Future Managers Will Do" (April). Because it is not only interesting but tremendously revealing and challenging to anyone interested in future management problems, I would like very much to have a copy of that issue. If such is available, please send, because others in our organization should read it. Congratulations on the continued good coverage of your magazine.

MARSHALL J. DIEBOLD,
Vice President-Personnel,
Northrup, King & Co.,
Minneapolis, Minn.

We please a girl . . .

I picked two significant statements out of the article on "Executive Trends" in your August number: "Most important, secretaries agree, a secretary should be steadfastly loyal to the executive she serves and to the company"; "Secretaries feel attitude of executives is vital in determining ultimate value of a secretary. . . . treat her as a mature person, give her responsibility and she'll prove to be one of your most useful and trustworthy aides."

I concur in your statement that "Girls seem eager to learn more about company organization." Along with many other secretaries I am doing something about it.

MISS VIRGINIA WILLIAMSON, CPS
Executive Secretary,
Kennecott Copper Corporation

. . . and neglect the men

May I call your attention to a minor misstatement [in same article]. You say "Only 983 women have earned the Certified Professional Secretary rating." According to the official CPS list, there are at least three men among that group.

MISS RUTH H. SCHWARZLET, CPS
Atlantic Mutual Insurance Co.

Help for a business . . .

Let me compliment you on the thoroughness of this report ("New Way to Spot Leaders," February) and others like it. I have found them extremely valuable to my career—perhaps some day they will have directly contributed to the success of my business.

ALFRED C. LEHMAN
New Hyde Park, N. Y.

. . . and soldiers

It is requested that the Main Library, U. S. Army Command and General Staff College, be granted permission to reproduce the article, "We're Arming for the Wrong War," by Dr. Vannevar Bush, which appeared in the August 1955

How to keep shipping costs under control

Late shipping struck Albert a hurricane blow
It upset his business and cost lots of dough

Al's back on his feet now and shipping with thrift
He calls **RAILWAY EXPRESS**—*it's dependably swift!*

The big difference is

If you're paying extra for pickups, deliveries, or insurance, your shipping dollar's going fast, but not far.

What to do about it?

Call Railway Express for really economical shipping. Just one fixed charge is all you pay. And you get swift coverage no other company can match, for Railway Express reaches some 23,000 American communities. And now, with Railway Express' new *World Thruway Service*, you can speed shipments to and from almost anywhere in the world! So, whether you're sending or receiving, here or abroad . . . always call Railway Express, the complete rail-air-sea shipping service.

RAILWAY EXPRESS AGENCY

safe
swift
sure

"With BLUE CROSS we know our people get excellent hospital care protection... and they know it, too!"

says **HERBERT C. PHILLIPS,** *President, Curlee Clothing Company*

"In our type of manufacturing, quality depends in large part on the conscientious craftsmanship of our workers. We consider Blue Cross a major aid in keeping Curlee people happy and enthusiastic in their work. It gives them truly worthwhile protection for themselves and their families—helps them avoid worries about sickness or injury."

Blue Cross Plans, serving locally coast to coast, bring Americans this famed program for prepayment of hospital care... the only one officially approved by the American Hospital Association.

BLUE CROSS protects employees of over 300,000 companies . . . more than are served by any other organization in this field. Such acceptance is based on the many advantages Blue Cross brings employers and employees.

Blue Cross is unique in its working relationship with hospitals. For the employee and his family, this means they need only show the Blue Cross card upon admission to the participating hospital. The local Plan handles bill payment directly with the hospital. No red tape.

More efficient for management. Because they work so closely with hospitals Blue Cross Plans can relieve companies of costly paper work and make for better employee relations. There are no claims to file—no reports to make out.

Benefits based on needs. The Blue Cross objective is to help members in terms of hospital care rather than dollar allowances—to give *realistic protection.*

The cost is low. All Blue Cross income, except what is needed for low expenses, goes toward paying for hospital care. Over a billion dollars was paid out for members last year—a new record! Benefits are set locally to best meet the costs of care in local hospitals.

Easily adapted to welfare programs. Blue Cross fits into almost any employee benefit "package"—large company or small. It may also be included in retirement benefits.

For full facts on protection advantages of Blue Cross, contact your local Blue Cross Plan. Or write *Blue Cross Commission, Dept. 714, 425 North Michigan, Chicago 11, Illinois.*

A few of the important companies with Blue Cross:

AMERICAN PRESIDENT LINES
CHRYSLER CORP.
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R. G. LeTOURNEAU, INC.
SCOTT ATWATER MFG. CO.

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ADAM S. BUYNOSKI
Colonel, Artillery, Secretary, Command & General Staff College, Fort Leavenworth, Kansas

. . . and a salesman

NATION'S BUSINESS seems to be just what I have been looking for. As an aspirant to the star salesman category, I feel that you have already published articles which could be of great value to me as a salesman.

W. A. SCHIRRA
Wirthmore Poultry & Dairy Service, Renfrew, Pa.

. . . and management people

The article "How to Make a Business Decision" (April, 1956) presents the kind of helpful information we like to pass along to our management people.

MARY DAMON
The Pacific Telephone and Telegraph Company, Los Angeles, Calif.

. . . and the clergy

I have read with interest "How to Say What You Mean" (May). I want to send one of these copies to our Bishop, who might in turn wish to distribute "How to Say What You Mean" to all our diocesan clergy. The Episcopal Church is tremendously concerned about the problem of communication.

GREGORY A. E. ROWLEY
Vicar, St. Francis of Assisi Church, Youngsville, Pa.

. . . and bankers

We would like to receive the following reprints from past issues of NATION'S BUSINESS: "New Way to Use Facts" (July 1957); "Listening is a 10-part Skill" (July 1957); "How to Say What You Mean" (May 1957).

It is generous of NATION'S BUSINESS to make these fine articles available to readers.

BEN R. CARROLL
Assistant Cashier, The First National Bank, Fort Worth, Tex.

. . . and union labor

Please include us on your subscription list for three years. We find your reports on labor of vital interest to our organization.

AERO MECHANICS UNION
Seattle, Wash.

Facts, not theory

The approach ("New Way to Use Facts," in July) was refreshingly practical in handling a topic which is often confused by theorization.

FRED C. MEIKLE,
Aluminum Company of America

✓ WATCH THIS ISSUE

Bill would widen U.S. lending control

A NEW PROPOSAL being considered in Washington may one day place the federal government in control of your business financing.

Under this proposal, loans and even equity financing would be dispensed by national investment companies organized in each state, financed from Washington.

Actually in 13 states privately financed development credit corporations have already been organized to meet long-run credit and equity needs such as the federal companies would handle. Under the new proposal the federal government would take over these corporations and set up somewhat similar ones in the other 35 states.

Here's what this could mean:

► The cost would approach $250 million immediately. Ultimate potential cost is impossible to estimate—but high.

► Federal authorities would control an important new source of money which business needs.

► Risk capital for the man with an idea—the kind of capital private investors traditionally put up—would be parceled out through government decision.

Preliminary experimental legislation may pass the Senate this year. The Small Business Administration may be authorized to buy bonds of existing development credit corporations. Hearings next year will determine what form the main move will take.

A Small Business Subcommittee of the Senate Banking and Currency Committee recently investigated this subject in connection with its hearings on continuing the Small Business Administration. The subcommittee discussed two bills:

S. 2160: A comprehensive plan under which Federal Reserve banks would subscribe $5 million in stock for a national investment company in each state—48 altogether. Control of the basic policies of these companies would rest with the Federal Reserve Board. It became clear in hearings, however, that the Federal Reserve Board did not want jurisdiction over this field, clearly not a standard central bank function. As a result, the committee has considered placing a government agency such as SBA in charge of the program.

S. 2286: This more modest bill would authorize SBA to buy bonds in privately financed development credit corporations wherever they exist or will exist. SBA purchases would have to be matched by local purchases, either by private enterprise or by the state government.

The first bill, S. 2160, is a revised version of a national investment companies bill which was part of the Truman Administration program in 1950 and has been introduced every year since without causing much congressional interest.

Revised and reintroduced by Senators John Sparkman (D-Ala.) and J. William Fulbright (D-Ark.) this year, it failed to win endorsement from representatives of existing development credit corporations who testified at the SBA hearings. The American Bankers Association endorsed the principle, but balked at federal control of the proposed lending organizations.

Senator Fulbright then introduced S. 2286.

The first privately financed development credit corporation was chartered in Maine in 1949. Since then, corporations have been set up and are making loans in all New England states except Vermont, and in New York and North Carolina. Soon to get under way are similar organizations in Georgia, Michigan, Mississippi, South Dakota, Vermont and Wisconsin.

In these organizations, stockholders are largely business firms which recognize their stake in fostering the industrial development of the state—which may mean utilities, manufacturing concerns, railroads, or public-spirited businessmen and citizens generally. This broad distribution of stock ownership puts influential elements of the state's business community solidly behind the development credit corporation. The bulk of the financing, however, comes from the use of a fixed percentage of

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Address inquiries to: R. James Pfeiffer, Executive Director of Customer Relations, Fairchild Engine & Airplane Corporation, Hagerstown 15, Md.

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their capital and surplus for the corporation's lending operation.

Loans made by the development credit corporation go to applicants who cannot obtain financing from normal channels. These are typically long-term loans. In fact, several development credit corporations are authorized to deal in equities as well, although few have done this. Standard banking channels continue to fill short-term credit needs.

In addition, the board of directors, made up of both stockholders and lending institutions, provides business management advice as well as loans (or instead of loans) when the need is apparent.

There have been cases in which a development credit corporation board has turned down loans but solved a small business problem through management suggestions.

At the end of 1956 the seven active corporations had 2,539 stockholders and 578 institutional members, most of which were national and state banks. The stock of these seven corporations totaled more than $2.6 million. The bulk of the funds was supplied by pledges of member institutions to the extent of $32.7 million.

Of 892 loan applications received during the period, 281 totaling more than $19.5 million were approved. Only one loss had been definitely incurred.

Unlike many local community foundations, the predominant objective of the state development credit corporations is not to woo business from other states or to set up entirely new businesses. Businesses already in the state accounted for about 80 per cent of all the loans received.

Variations on the development credit corporation have been adopted in a few of the other states, notably Pennsylvania, Arkansas, and Kansas.

In Pennsylvania, the Pennsylvania Industrial Development Authority performs somewhat similar functions but is a state agency using taxpayer funds. In addition, this authority has more restrictions on its operations than the others. It is limited, for example, to labor surplus areas in that state.

In Arkansas, the newly formed development finance corporation would rely on help from the state government, but would still be predominantly private. Arkansas investors feel that state government support is necessary because of limited domestic capital.

In Kansas, regional development credit corporations are authorized, and two have been set up.

—DON WAAGE & GUY WATERMAN

LEADING COMPANIES EVERYWHERE ARE ADOPTING COPYFLEX ONE-WRITING METHOD!

Main office and factory of The Bristol Company, Waterbury, Conn.

Above: J. H. O'Connor, office manager of The Bristol Company, saves his company thousands of dollars annually with Copyflex one-writing system.

The Bristol Company Slashes Clerical Time and Cost 85% on Order-Invoice Operation!

The Socket Screw Division of The Bristol Company, manufacturers of the most complete line of socket screws on the market, has virtually eliminated all clerical work on its extensive order-invoice operation. Alert office manager J. H. O'Connor has done it with a revolutionary one-writing system made possible by Copyflex copying.

All items to be ordered by distributors from Bristol are preprinted on prepriced translucent forms. Distributors pencil in quantities desired and send originals of orders to Bristol. Copyflex copies, mechanically produced from the originals without further writing, serve as packing lists, shipping labels, order acknowledgements. Extensions are then made on the original order and additional Copyflex copies run off for use as invoices.

How Bristol has eliminated costly, time-consuming clerical copying and proofreading with Copyflex can be shown by Bristol's own Time Study:

	Conventional System (One-Order-Invoice)	Copyflex System (One-Order-Invoice)
Checking and Pricing Distributor Purchase Order	15 minutes	0 minutes
Preparation of Order Invoice	45 minutes	8 minutes
Totals	60 minutes	8 minutes

The savings made by Bristol can be projected to almost any paperwork operation in your business whether it's accounting, purchasing-receiving, or production control. Copyflex is the superior, modern copying process—clean, odorless, and economical. Letter-size Copyflex copies cost less than a penny each for materials. Copyflex will fit readily into your present systems. Mail coupon today! You'll be glad you did!

Copyflex Desk Top Model 110 copies originals 11" wide by any length, makes up to 300 letter-size copies per hour. Only $555. Other models available to copy originals up to 54" wide.

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WHY INDUSTRY IS

It took a city-wide election

We found an ideal site for this company's proposed new distribution center. The only difficulty was that it lay just outside the city limits, in a rural township that could not provide sewerage, water, or fire and police protection. Chesapeake and Ohio's Industrial Development Department went to work.

The only way these services could be made available was by annexation of the township by the city. First the Mayor, the City Manager and the City Industrial Committee had to be won over to the plan. Then it had to be approved by a city-wide referendum. The election was arranged. The desirability of the new industry was sold to the public, and the annexation was overwhelmingly approved.

Finding just the right site for a plant is seldom a simple matter. Often there are intricate negotiations which can best be handled by a third party; in this case the C&O.

When you bring your plant location problem to the Industrial Development Department of Chesapeake and Ohio, you are enlisting the aid of a team of experts in every phase of the subject—including marketing, transportation, raw materials, taxation, labor, water and geology.

We know you will be pleasantly surprised at the amount of help this organization is able to give you.

Write for new booklet describing industrial resources and opportunities in C&O territory. Address: Wayne C. Fletcher, Director of Industrial Development, 3202 Terminal Tower, Cleveland 1, Ohio.

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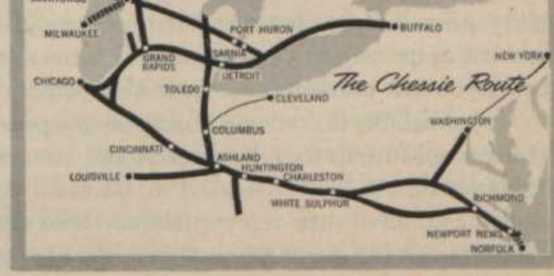

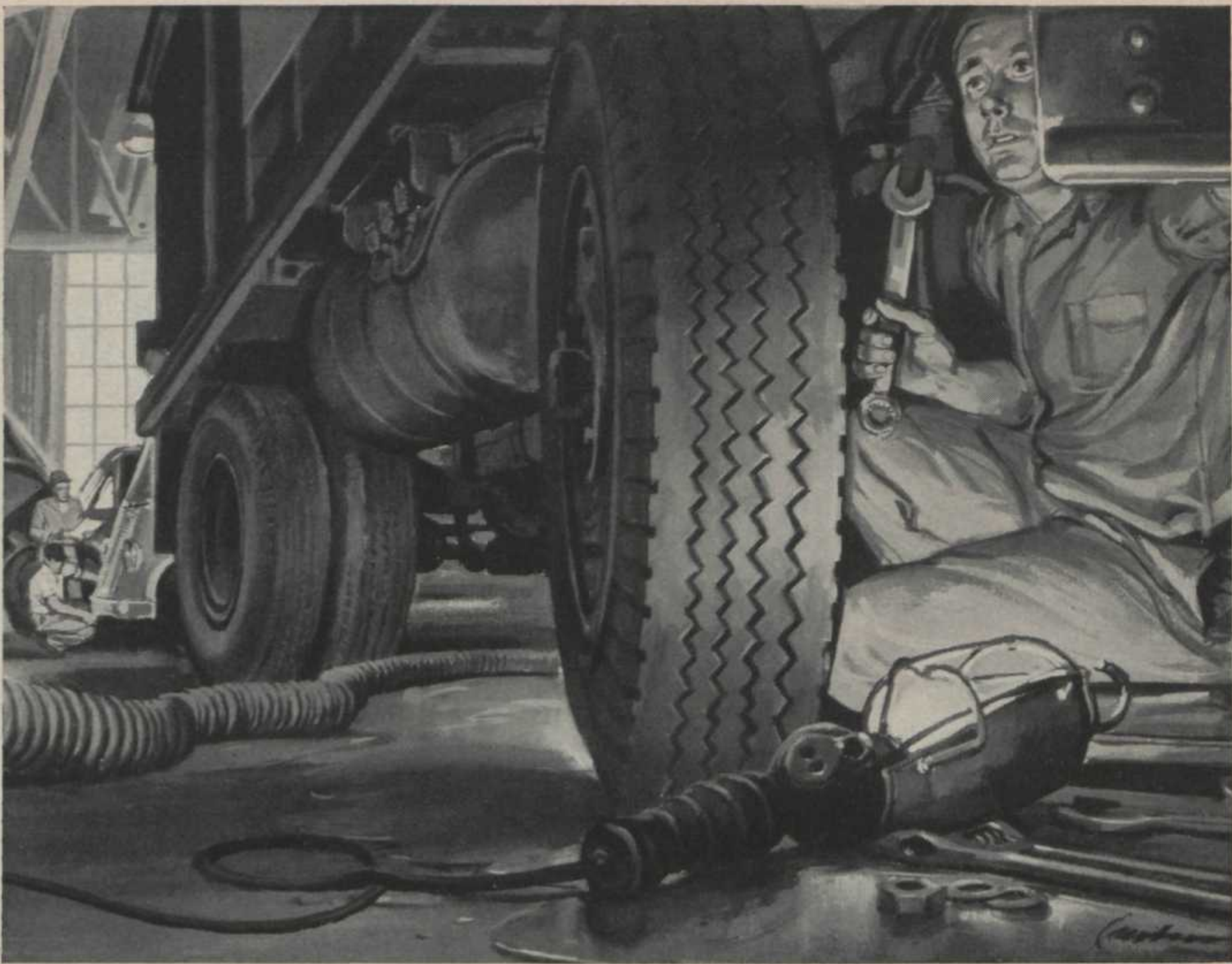

"How a light bulb accident brought a dark day to our shop!" relates Jerry Adams

"Repair work on the truck was right on schedule until the accident. Unnoticed, the truck's fuel line had developed a leak and a film of gasoline had spread along the garage floor. When a nut dropped, it shattered the bulb in the extension work lamp. The entire area burst into flames.

"The mechanic suffered severe burns on his hands and arms. Other quick-thinking employes pulled the flaming truck into the lot with a wrecker and so saved the building from total destruction.

"Hardware Mutuals rushed a claims man right over. He showed how my garage keeper's legal liability protected me for the destroyed truck. Workmen's Compensation protection paid for my injured employe's lost earnings and medical expenses.

"It's times like that when a businessman appreciates Hardware Mutuals friendly interest and quick claims settlements. And, of course, I'm thankful for the skilled counsel of their representative—who saw to it I had enough insurance protection in the first place."

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Trends
of Nation's Business

THE STATE OF THE NATION

BY FELIX MORLEY

States trade away sovereignty to get their money back from Washington

ALL WHO ARE CONCERNED for the future of our federal republic have been encouraged by the actions of the Eighty-fifth Congress in the closing days of its first session. Both in the aid to education and civil rights bills, the effort of the Administration to extend its authority in fields traditionally reserved to the states was frustrated.

But there is a more insidious undermining of state rights that has not been checked and indeed proceeds steadily while Congress is not in session. This is found in the expanding system of financial grants made by Washington agencies direct to individuals in all parts of the country. Once such grants have been authorized they are administered with little or no legislative supervision. Each particular service builds up its own vested interest and the rising cost of each has become difficult to isolate in the highly complicated budget estimates, though clearly reflected in the soaring departmental totals. The danger to the federal structure in this policy of direct aid to individuals is obvious. It practically ignores the states as political units, treating them as superfluous factors in our governmental system. The leveling-up process, for individuals, is the socialistic counterpart of the leveling-down, for individuals, made effective by direct federal taxation. Taken together, the federal income tax exaction and the personal federal subvention threaten in time to eliminate all practical reasons for having states at all.

• • •

Until recently it was almost impossible to get a breakdown on the amounts our central government has been spending in direct subsidies to individuals, as contrasted with the older practice of grants-in-aid to be administered by the states. Now we have the comparative figures. From fiscal year 1934 to 1956 inclusive the grand total of both these types of expenditure was \$80,534,854,817. Of this, nearly \$50 billion, 62 per cent, went direct to individuals, either in cash or kind. Less than \$31 billion was paid to state and local governmental units. Furthermore, the rate of increase is mounting the more rapidly in the direct subventions, having risen 17 per cent from 1955 to 1956 in the case of donations to individuals, as compared with a 10 per cent increase in federal grants to local governments.

All these data have been most carefully worked

up, from Treasury Department sources, by the Joint Congressional Committee on Reduction of Nonessential Federal Expenditures, of which that doughty watchdog of the public interest, Sen. Harry F. Byrd of Virginia, is chairman. The committee report, as submitted to Congress by Mr. Byrd, is a wholly factual statistical compilation of 618 pages. But the formidable document richly repays close study.

During the New Deal period payments by the central government to individuals were almost entirely unemployment relief of one kind or another, and were in the aggregate enormous. These direct payments are now of quite different character, for all sorts of welfare measures, but under the Republican Administration they have been steadily climbing back to New Deal levels. Thus, in fiscal 1934, with unemployment rife, federal payments to individuals totaled $1,699,871,720. In fiscal 1956, with no unemployment to mention, this item was nevertheless virtually identical—$1,689,154,920.

• • •

In its detailed statistical analysis the Byrd Report first breaks down the different types of federal subventions into 175 separate categories, of which a few—like the National Youth Administration—no longer function. Then there is a lengthy section showing under each category how much has been distributed annually in every state in each category. Thus it becomes possible to ascertain at a glance how deeply, and in what directions, federal aid has permeated the structure of local government.

For instance, the special school milk program was launched in 1954, partly in the hope of reducing surplus stocks of dairy products. Taking Maryland as a median state, one finds that until 1955 no Maryland schoolchild was spoonfed with special milk by Uncle Sam. In 1955, however, small Marylanders drank this milk down to the value of $192,035. It obviously created an appetite, for in 1956 this item of special milk consumption jumped to $960,579 for Maryland alone.

At the other end of the educational scale are the research grants now being made to presumably qualified students through the agency of the National Science Foundation. These federal subsidies also got under way slowly in Maryland, with a modest total of $84,000 in 1954. But they are gathering steam: $224,000 for Maryland in 1955 and $324,250 for 1956.

Being a citizen of the Old Line State myself, and also mildly afflicted with arthritis, I was prompted by personal curiosity to see how federal subsidies looking toward the control of this ailment are going in Maryland. The Byrd Report shows that they are going very well indeed. The score by years for the arthritis item is: 1952, $3,782; 1953, $25,415; 1954, $64,795; 1955, $146,699; 1956, $238,432. I calculate that if the rate of increase continues to double every year, Maryland arthritics alone will in 20 years time be absorbing $250 billion of federal funds annually. By then those who pay will be at least as crippled as those who receive.

The speculation does not seem so fantastic when one examines the cumulative cost of these classified activities during the brief time that some of them have been in operation. And it is to be realized that the Byrd Report excludes from its compilation all social security payments and other federal subsidies to which the recipient himself makes some financial contribution.

The biggest single item is old-age assistance, under which a total of nearly $8.5 billions had been distributed to individuals by the close of fiscal '56 Aid to dependent children had then reached almost $3 billion more. The mere removal of surplus agricultural commodities accounted for $580 million in direct payments to happy farmers. For school lunch programs, over and above the special milk experiment, the total as of today is certainly more than $1 billion. These cosseted children, as they grow up, will not be inclined to bite the federal hands that feed them. More probably, with the audacity of Oliver Twist, but with much better prospects of success, they will ask for more.

• • •

In 1955, the Commission on Intergovernmental Relations, headed by Meyer Kestnbaum of Chicago, produced an exhaustive but ineffective report on the division of function between the central and state governments. Just recently Mr. Kestnbaum told a House committee that some federal aid programs might well be discontinued. The Byrd Report is helpful in identifying those which are not merely nonessential but also shamelessly extravagant.

Now President Eisenhower, properly worried by the situation which this report defines, has named another commission, instructed to get early action in stopping the ever increasing drain of authority from what used to be called the sovereign states. This new commission, composed of nine governors and seven high federal officials, held its first meeting in August.

The new "Joint Federal-State Action Committee" could logically decide upon one recommendation which, if adopted, would go far to restore the traditional balance of American government. It is, that all direct subventions from Washington to individual citizens of the various states should be discontinued as a matter of principle.

Donald Klauber, Station Sales Manager of Associated Artists Productions, Inc., tells:

"Why Popeye had to race to Texas!"

"Kids were clamoring, advertising sponsors waiting! A big TV station's popularity – and profits – were at stake!

"As usually happens, when KDUB-TV in Lubbock, Texas, finally signed up Popeye—one of America's hottest daytime programs—they needed those films in a real hurry!

"So we raced Popeye there – via Air Express!

"But launching a TV cartoon series is only a small part of our story. We use Air Express for 50,000 theater dates for our full-length feature films – with only 600 prints!

"We could not run this business as economically without Air Express!

"A 15-lb. shipment, New York to Lubbock, Texas, costs only $9.47 with Air Express – $1.36 less than any other complete air service.

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Trends of Nation's Business

PHILLIPS—BLACK STAR

WASHINGTON MOOD

BY EDWARD T. FOLLIARD

Change in public attitude helps President guard health

A GENERATION AGO, when cardiacs were looked upon as invalids, such a thing would certainly have caused alarm; but it is a fact now, two years after his heart attack, that President Eisenhower plays more golf than he ever did, without alarming his friends and seemingly with benefit to himself.

Indeed, the President's associates say that he is actually feeling better than before he suffered his coronary thrombosis at Denver in September, 1955. They are not saying, of course, that his health is better, only that he feels better. They attribute this to his ileitis operation of June, 1956, which, they explain, freed him of the stomach upsets that used to hit him periodically and caused him great distress. Anyway, the 67-year-old Chief Executive has been getting out on the fairways three and four times a week either at the Burning Tree Club near Washington or at Gettysburg, and even oftener when on vacations. His medical advisers, Maj. Gen. Howard McC. Snyder, the White House physician, who is 76, and Dr. Paul Dudley White, Boston heart specialist, 70, not only do not object to the President's golf-playing, they encourage it.

Some doctors, including cardiologists, fear the President may be overdoing it and perhaps setting a dangerous example for others who have had heart attacks. They don't care to quarrel publicly with Dr. Snyder and Dr. White; they emphasize, however, that they wouldn't think of advising their own cardiacs to exercise on such a scale.

Doubtless, much depends on what kind of life a man has led. In this connection, you are reminded at the White House that the President has always been the athletic type, playing baseball and football at West Point, and taking up golf late in life —not to mention hunting and fishing.

• • •

The President's friends say that he has a real need to get out and exercise, and that he becomes frustrated and restless if he can't.

He has what amounts to a passion, an almost obsessive love, for golf. One day at the Cherry Hills Club in Denver—this was before his heart attack—I was watching him practice by hitting iron shots toward a caddie. A White House aide, who also was looking on, laughed and remarked:

"If he couldn't play golf, I'm afraid we'd have a nut on our hands."

The soldier-statesman has had need of good health and vigor, for things have not gone too well for him in this first year of his second term. The cost of living has continued to rise at a worrisome pace. He has experienced legislative setbacks or outright defeats. He has been criticized sharply by his own Republicans and by Democrats in Congress, one of the latter (Rep. Cleveland M. Bailey of West Virginia) going so far as to call him a "lousy liar."

Occasionally, too, his critics go after him for his golf-playing. This is certain: He is not the least bit disturbed by these jibes. He feels that the 1956 election took care of them. Before the campaign, he said publicly that, if elected to a second term, he would have to do less work and so guard against fatigue. Adlai Stevenson, his Democratic rival, went after him on this and called him a "part-time President." The American voters buried the charge in the second-largest electoral landslide in history in returning him to the White House.

President Eisenhower has a sort of philosophy about recreation and relaxation. Perhaps all occupants of the White House have had one, but he seems to have been the first to talk about it pub-

licly. Put briefly, it is this: He is convinced that he can do a better job as President if he is able to respond to his urge for golf, fishing and hunting.

"I insist on going for a bit of recreation every once in a while," he said at a press conference, just before flying down to George M. Humphrey's plantation in Georgia. "I do that because I think it is necessary to keep up the state of fitness essential to this job."

Probably most Americans (including Adlai Stevenson) would say that this makes sense. Unfortunately, however, not all Presidents have thought so in the past. One was Woodrow Wilson, who suffered a breakdown in his second term.

In one of the great crises of American history, President Wilson was badly in need of relaxation. A golfer, he wanted to get out on the links and play, but held back because of a fear that the American people might think it unseemly.

The story is told in the diary of Col. Edward House, confidant and adviser of Mr. Wilson. In a 1917 entry dealing with the days just before Imperial Germany drove the United States into World War I by sinking American ships, Colonel House tells of calling on Mr. Wilson at the White House.

"The President was sad and depressed," Colonel House wrote. "I did not succeed at any time during the day in lifting him into a better frame of mind...

"Wilson was insistent that he would not allow it (Germany's defiance) to lead to war if it could be possibly avoided. We sat listlessly. The President nervously arranged his books and walked up and down the floor....

"Mrs. Wilson spoke of golf and asked whether I thought it would look bad if the President and I went on the links. I thought the American people would feel that he should not do anything so trivial at such a time. The President at last suggested that we play a game of pool...."

• • •

That was 41 years ago. A lot of farmland has been transformed into golf courses since then, and a decided change has come in America's attitude toward the game. No longer is golf regarded as something reserved for the country-club rich. It has become a game for the little folks as well, and it is they who produce the champions.

Moreover, a revolutionary change has taken place in the country's thinking about the whole question of recreation in the past four decades. Thanks to the five-day week, longer vacations and more spending money, virtually all Americans are playing more and relaxing more than they did in Woodrow Wilson's time. If they resent President Eisenhower's vacations and his golf playing, they certainly didn't show it last November.

The President has, of course, made one concession in his playing in order to guard against fatigue. He uses an electric golf cart, operated by Dick Flohr, a member of the White House Secret Service detail. Newspaper reporters have noted, however, that he sometimes passes up the cart and goes around much of the course on foot.

Not only is the President playing more golf these days, he is playing better. His drives are usually good for 200 yards or more, his iron shots are crisp, and his score usually is in the low 80's.

Like nearly all golfers, however, he is forever trying to improve his game. The pros who have played with him—Ed Dudley, Ben Hogan, Cary Middlecoff, Byron Nelson and Jimmy Demaret—all have found him to be a keen student, eager to rid himself of the duffer's faults and so lower his score.

• • •

In the two years since his heart attack, there have been changes in the President's life, but it could not be said that they are of great consequence. He has delegated some of his chores to others, as he said he would in announcing his candidacy for a second term. The ceremonial part of his job—greeting delegations, seeing prize-winners, and so on—has been cut drastically.

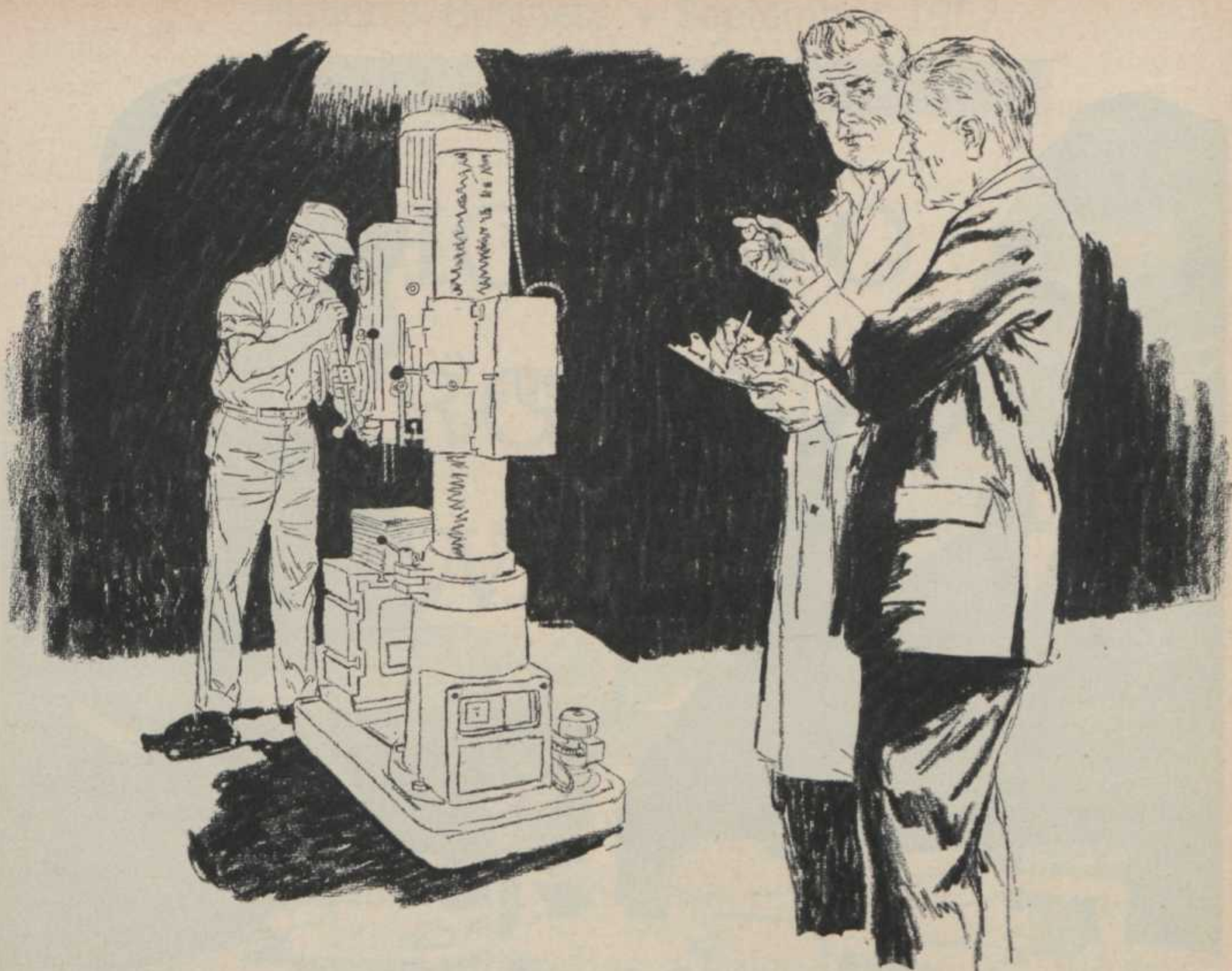
He is on a nonfat diet, but doesn't seem to mind it. He eats steak at breakfast, for two reasons—his doctors want him to and he likes it. The diet must not be a very rigid one, however, for at a recent game between the Washington Senators and the Chicago White Sox he was seen eating peanuts and drinking pop.

The Chief Executive gets up now between 6:30 and 7 a.m., which is an hour later than he used to. On orders of his doctors, he takes it easy for about two hours in the middle of the day. Sometimes before lunch he will swim in the White House pool, using an old-fashioned breast stroke. After lunch, he goes to his bedroom to take a nap or to read a paperback western or something else that will get his mind off government affairs.

He rarely goes out at night. His evenings usually are spent playing bridge with friends such as Gen. Alfred M. Gruenther and George C. Allen, watching television or viewing movies (westerns or musicals) that Hollywood producers have sent to the White House. He retires around 10 p.m.

One of the President's medical advisers likes to see him take a highball in the evening. He feels that it will relax him and dilate the arteries. Dr. White, although he takes a drink himself, does not think much of whisky as a heart aid.

It really doesn't make much difference in President Eisenhower's case, for, like his immediate predecessor, Harry S. Truman, he is one of those men who can take it or leave it alone.



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HOW TO BARGAIN ON WAGES

Here are factors to consider in keeping a business profitable when union has a voice in pay

An interview with Dr. George W. Taylor,
Pioneer arbitrator and wage consultant

Dr. Taylor, what is wrong with the way wage bargaining is conducted today?

A number of things. One aspect which has been causing difficulty is the general across-the-board increase for all employes. Further, so-called pattern bargaining doesn't take into proper account the varying circumstances in different industries—sometimes in different companies.

I think we have overdone across-the-board increases and pattern wage determination, and in the process have tended to oversimplify wage setting. It is a much more subtle process, involving more difficult questions than these methods imply.

What questions are involved?

I would think, for example, the relationship between occupational groups in an establishment. To determine that the relationships are equitable is a responsibility of those determining wages. Morale suffers if the relationships are not adequately set.

What about market conditions?

Market conditions really are taken into account in two ways. First we have industries that just don't follow the pattern of wage increases.

The needle trades haven't participated in the pattern, nor has the textile industry and many of the soft goods trades.

A second element of flexibility gets introduced, too. A wage agreement has to be applied to day-to-day operations. When a company faces difficulties, the wage agreement will frequently be relatively loosely administered.

When business is good it will be more strictly administered. Even so, I think that wage determination needs to be thought of to a lesser degree than before in pattern terms.

Can wage increases be too high?

Yes, indeed. Every union that knows its stuff feels the responsibility for seeing to it that wages don't create unemployment or lack of job opportunities for its members. If wage increases result in that, then they are too high from the union standpoint. Increases can be too high also if, in being passed along to the consumer, they reduce consumer demand. This

has the same result—decreasing production and work opportunities.

Who is responsible for keeping wages in line?

Under collective bargaining it is the responsibility of management and union representatives jointly. Collective bargaining is really not too well understood by many of those who extol it and criticize it. When collective bargaining is introduced there are business decisions which management and union representatives share.

For that reason, when wages are set that result in economic maladjustments, both management and labor share responsibility.

One of the biggest problems for collective bargaining in the future is the perfection of this joint decision-making process.

What decisions should be shared?

That is one of the most critical aspects of collective bargaining. In earlier years, collective bargaining involved relatively few subjects. Management used to bargain wages and hours and one or two working conditions. Over the years, more and more subjects have been brought in. We now determine pensions by the collective bargaining process, for example. It has become essential now for the decision makers to be something of actuarial experts as well as sociologists and, I suppose, adept in geriatrics.

Or take supplemental unemployment pay, which introduced a brand new concept into industrial relations. We pay people now for time not worked, not just in terms of supplemental unemployment pay but other areas as well, such as sick leave and time out for jury duty.

Not so long ago I heard of a labor agreement that provides two days off a year for every female employe—days of her own choosing—so she can get a permanent wave. As a result of such factors as these, decision-making has become quite complex in industrial relations.

As unions get more and more into decision-making should they assume more responsibility?

They inevitably have to assume more responsibility. When they join with management in offering a decision to the individual workers for acceptance or rejection, the union officials have to stand shoulder to shoulder with management in supporting that decision.

Is there a point beyond which union leaders will not go because of the responsibility involved?

Yes. From time to time people have talked about union officials being represented on boards of directors. I don't know of any case in which a union official has wanted to assume responsibility for making decisions about areas of business operations that are not directly related to conditions of employment. Even as respects matters affecting working conditions there are areas where most union leaders recognize that decisions have to be made solely by management. These include pricing of product, introduction of labor-saving machines, and so on.

Actually they do get into those questions, don't you think?

In most cases it is up to management to determine whether or not labor-saving devices are introduced. It then becomes the responsibility of the union to participate in the decision as to the wages and conditions of employment under which this machinery shall be operated.

Haven't unions become involved in decisions over rate of production?

Yes, especially under piecework and incentive operations. In that case the argument as to what constitutes a fair day's work has taken its place along with what constitutes a fair day's pay as one of the most important decisions to be made in industrial relations. But it is usually in terms of this relationship between production and pay that the problem emerges.

Doesn't John L. Lewis try to limit coal production?

Mr. Lewis' program, as I see it, is an interesting illustration of what I have been talking about. Mr. Lewis and his United Mine Workers have gained substantial wage increases over the years, but have always been ready to give management latitude for introducing labor-saving devices. The union sought an objective which most scientific management engineers have always urged—high wages and low labor cost.

Haven't some unions tried to restrict management's right to set prices?

I suppose you refer to the situation some years ago where a labor leader indicated that he would withdraw a demand for a wage increase if it could be shown that the wage increase would necessitate a price increase. The company insisted that price determination was a matter not within the scope of collective bargaining. Indeed it was on that issue—the pertinence of company pricing to the collective bargaining process—that the dispute was grounded.

The union filed an unfair labor practice charge seeking to have the company show the books, but the charge was eventually withdrawn.

You don't feel, then, that the unions will move further in the direction of trying to share management decisions on such things as pricing and production?

No, I don't.

“When wages are set that result in economic maladjustments, both management and labor share responsibility”

GOODMAN—BLACK STAR

Dr. George W. Taylor *was the chief administrator of government wage controls during the only periods in our history that we had wage-price controls—World War II and the Korean emergency.*

He was chairman of the National War Labor Board and conceived the Little Steel Formula which became a standard yardstick for wartime wage stabilization. After Korea, Washington called him back to set up and head the Wage Stabilization Board. He served as secretary of the National Labor-Management Conference called by President Truman in 1945 and was chairman of the Office of War Mobilization and Reconversion Advisory Board.

Dr. Taylor has been professor of industry in the Wharton School of Finance and Commerce of the University of Pennsylvania for many years. He pioneered in labor arbitration and serves both management and labor as a consultant on wage problems. His book on new concepts in wage determinations was published this year.

What are major employer faults in bargaining?

I don't know that I would call it a fault, but I believe that many managements do not understand collective bargaining as a joint decision-making process. I never saw a place for a union or a union representative on a business organizational chart. The fact is, the flow of authority within a business enterprise changes when the union comes into the picture and has a responsibility for decision-making.

It seems to me that the most important decision a management makes is with respect to how this joint decision-making process shall operate.

Should management take the initiative in collective bargaining?

Yes. It seems to me that the company should take the initiative in proposing solutions to particular problems, using that as the basis of discussion for decision-making. I don't conceive it as constructive collective bargaining when you throw a problem on the table and start from scratch toward solving it.

In wage bargaining, too?

The same thing applies in wage bargaining. Until recently, management's point of view toward wage determination had been largely negative.

I remember asking many companies, "What is your policy covering the circumstances under which wages should go up?"

They usually said, "Well, we pay as good or better than is paid for comparable work in the same labor market area."

That went for management wage policy for many years. To begin with, *(continued on page 106)*

TOP MANAGERS' THREE BIGGEST PROBLEMS

prefers steak

buys 2 suits a year

tips shoe shine boy a dime, hatcheck girl a quarter

is a dreamer, would like to travel more for pleasure

owns two cars

doesn't live in his birthplace

would rather play bridge than any other card game

would like to buy summer home in country or boat

likes to play golf

New survey shows what worries company heads and what they are doing about it

MANAGEMENT'S THREE most pressing problems today are:

- ▶ The lack of time
- ▶ Difficulty in finding and training competent executives
- ▶ Dealing with people

The men responsible for managing America's private businesses constantly are working to ease these major headaches. The problems and their approaches to them are revealed in an 80 question survey of 335 company presidents just completed by the American Management Association.

All the men surveyed are enrolled in AMA training programs.

The survey was made, AMA says, to bring into "proper perspective" the public view of company presidents. The association believes presidents are some of the most misunderstood men in our society, and that the popular image of them has been distorted by some motion pictures, novels and plays on TV and Broadway.

In addition to throwing light on executive problems, the survey provides some rare insights into the nature of the top executive himself—how he got there, the code he lives by, what he thinks about the future, how much time he devotes to community and church affairs, and the kind of academic preparation he would recommend to a young man aspiring to an executive position in business or industry.

In a lighter vein, the survey reveals something about the personal life of the executive—how much time he spends with his family, what he likes to eat, who buys his clothes, what one thing he would like to do most, how much he tips the hatcheck girl, his barber and the Pullman porter.

For some of these sidelights, and others, see the tables on the next three pages.

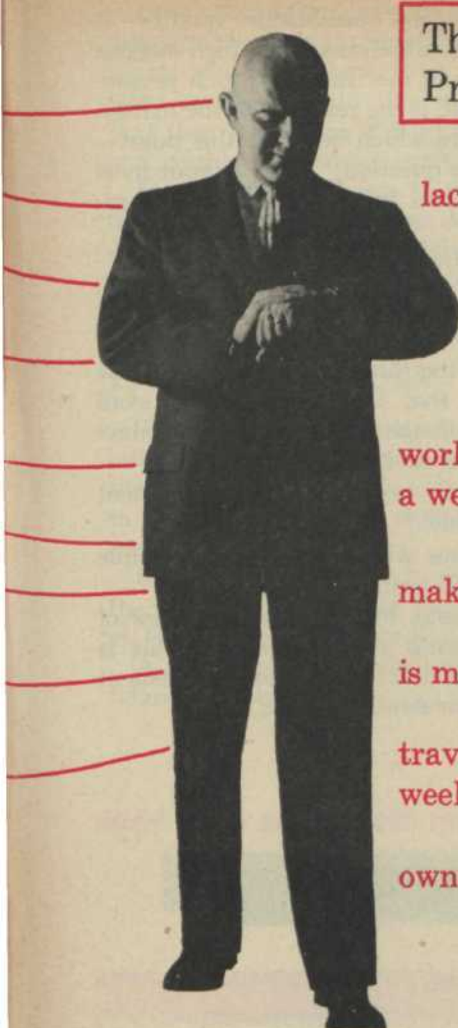
While it is as dangerous to generalize about top executives as about any group of people, a certain image, or portrait, of the typical president emerges from the survey findings.

It indicates that the majority of company heads are frank, hard-working, serious-minded (but hardly humorless) men who like their jobs and would choose the same one if they had it to do over again. It suggests, too, that they are basically optimistic about the outlook for the nation's economy. And it shows that they are driven by a creative restlessness which makes them, in the aggregate, an inquisitive, acquisitive and life-loving breed which revels in travel, new interests and the fullest development of their own and others' talents.

The survey covered firms of all sizes in a wide variety of industries. Participating executives range in age from 30 to 77, in executive job experience from one to more than 50 years, in earnings from \$13,500 to more than \$400,000. Their businesses' yearly sales volumes range from less than \$500,000 to more than \$6 billion. A few Canadian executives were included.

The discussion of management problems was prompted by the question, "What is your most pressing problem in day-to-day business relationships?"

The Composite President



Answers to this question came from 202 of the 335 respondents. Time—the lack of it, the management of it—was named by 68 presidents. Problems involving the recruiting, training and motivation of younger executives were cited by 41. Problems which can be grouped generally under the heading of human relations, or dealing with people, were mentioned by 33.

Other frequently mentioned obstacles to effective executive performance include communications, decision-making, frictions arising from interpersonal relationships between older and younger men (and, in some instances, relatives in the same firm) and a variety of miscellaneous complaints.

The latter range from highly personalized problems such as deafness, inability to control temper, verbosity and impatience to "labor union deceitfulness," apathy and slowness among subordinates, and delegation of responsibility.

Others mentioned include:

- "My secretary says not to show favoritism to certain individuals."
- "Being careful not to bite off more than I can chew."
- "Maintaining proper balance between business, community activities and family."
- "Getting a haircut and handling personal grooming details."
- "Acceptance of mediocrity by others."
- "Trying to outguess the future."

A few lucky presidents commented that they had no pressing problems, or at least could think of none.

Time

This is the number one problem facing chief executives in business and industry. (See "Make the Time You Need," NATION'S BUSINESS, October, 1956.)

Most of the presidents who gave it that ranking in the AMA survey said simply that they lacked enough time to do the things that needed to be done. In some cases, however, answers were more explicit.

One man, for example, answered this way: "Finding time for the major tasks—when forced to devote so much time to minor but essential tasks which, being nonrepetitive and unclassifiable, are difficult to delegate."

Another said he lacked time for hearing subordinates, visiting plants, and attending meetings. Still another mentioned the insufficiency of time for handling correspondence and for necessary contacts.

Other questions in the survey also point up the time squeeze. Most executives (251) indicate that they spend at least some time each month in community activities which have no direct bearing on their jobs. Almost as many (183) say that church work consumes part of each month—either through attendance at worship, fund-raising, in service on boards of trustees or in other ways, including instructing at Sunday School.

A number indicate that, although they want to help in community, cultural, religious and other activities—and do—they must draw the line somewhere or their work and family life begin to suffer.

The problem of the executive's family life is in itself essential to an analysis of the time pressures on him. The presidents surveyed by the AMA average from none to 40 hours a week in overtime work on their jobs. Eighty-two work from five to 10 hours beyond their company's normal work week. Seventy-three work from 10 to 15 hours overtime. Twenty-eight work 20 to 25 hours overtime.

In addition, most of them devote at least three luncheons a week to business matters and 148 spend from five to 20 hours a week on business matters while at home. This means they are pinched for time to spend with their families—so pinched in fact that many (139) find it impossible to go on vacation without devoting at least some of the time to business—calling on customers and company representatives in the areas they visit, answering business mail, attending conventions, maintaining telephone contact with their offices or worrying about business problems. (One hundred and ninety five presidents take from two to four weeks of vacation each year—eight take none; only six take more than two months.)

To insure that they do not cut their families out of their lives because of these pressures, a surprisingly large number (130) say that they follow deliberate techniques of making time for family life. The examples range from doing briefcase work on the commuter train to organizing special activities in which all the family can participate. (One executive says he sails with his family as crew.)

Other ways of spending time with the family:

- "Leave early for home." *(continued on next page)*

▸ "Never schedule anything on Sunday that does not include all of the family."

▸ "Have small country cottage 20 miles from city without a telephone."

▸ "Tie in family trips with some business trips."

Golfing seems to be the most popular recreation in which presidents participate—although fishing, swimming, boating and hunting are mentioned frequently. Some of the more off-beat recreational activities cited include badminton, figure skating, mountain climbing, skeet and trap shooting, flying, ping pong and "chopping wood on my farm."

The survey did not specifically ask what techniques, if any, the top managers have instituted to get more effective use out of their time while on the job. That there is a need for such techniques is clear from the complaints expressed.

Finding and training competent executives

The comments of presidents who say this is their biggest problem range from the bald assertion that managerial talent—of any reasonable quality—is hard to find, to more detailed answers which suggest that the development and motivation of such personnel, once they are found, is the real nub of the matter.

Here are a few replies which bear out this point—again, in answer to the question, "What is your most pressing personal problem in your day-to-day business relationships?"

▸ "Development and training of executives."

▸ "Good man to make sound, responsible decisions."

▸ "Developing an effective management team."

▸ "Fully to develop the human resources of our management group so that the company may avail itself of a striking challenge which requires product and development at almost superhuman rate."

▸ "Development and/or acquisition of competent young executive personnel."

▸ "Spending enough time with each man responsible to me in reviewing and criticizing his work."

The company presidents indicate an awareness of the problem of developing able successors. This is particularly true of the older men whose retirement is a prospect in the foreseeable future.

AGE

A surprising number of presidents are under **50.** Here's the age breakdown:

30-39—**41**
40-49—**100**
50-59—**120**
60-69—**70**
70-77—**4**
Median age — **51**

EDUCATION

(**67** did graduate work in college)

THE ROUTE UP

59 came up through marketing
56 through production
39 through finance
112 say they made it via a combination of the three foregoing routes
47 specify other paths, including research, law, engineering and general management

INCOME

Earnings range from **$13,500** to more than **$400,000** a year.
Personal income averages **$68,000** for group. Two thirds of that is salary.
Profit-sharing, stock option, other forms of income add to salary in many cases

It is interesting, in this same context, that the younger presidents complain of pressure from the old hands who keep them from acting as quickly or as often as they would like while the older men say that they are having difficulty developing a successor and getting the younger men to accept responsibility.

Most presidents seem to work out these frictions, however, since the turnover in the executive group is described by 63 per cent of the respondents to the survey as nonexistent, very slight or practically none.

Human relations

The number of company heads who had human relations problems in mind may actually be greater than the 33 who mentioned it either in those words or in a way which left no doubt that that is what they meant.

Support for this conclusion may be drawn from the fact that so many of the hard-to-classify answers at least hinted at difficulties in dealing with people.

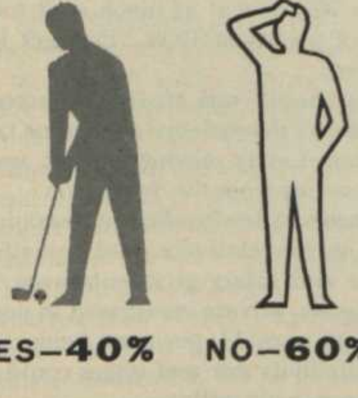
A separate question got into the specifics of human relations problems, *(continued on page 100)*

MOST VALUED STUDY

Looking back on college days, the presidents say they got most from:

Economics	—**43**
English	—**39**
Math	—**24**
Engineering	—**23**
Psychology	—**20**
Accounting	—**17**

RETIREMENT PLANNED?



YES—40% **NO—60%**

HOW THEY SEE THE FUTURE

• • • THE SURVEY asked, "What economic or social factors do you think will affect the continued expansion of your business in the next few years?"

• • • The replies, generally optimistic, gave first place to population growth, followed by general economic expansion.

• • • Factors given less weight included:

• • • Keener competition; world conditions (or war); government spending; inflation or rising costs; manpower shortages; pressures from unions; research and technology; credit or capital availability; taxes; government regulation and policy; automation; mergers; housing starts; high personal income, and the trend toward increasing government control of business.

• • • One man's comment: "Wish I knew"

Other comments:

"Competing with taxes for capital expansion for our growth."

"Maintenance of consumer purchasing power; continuation of trend toward increased consumption of convenience foods."

why PROGRESS DEPENDS ON PROFITS

ONE *constantly growing threat could slow down economy, but businessmen are learning to meet it*

PROFITS ARE the cornerstone of progress. Without them the new machinery which enables workers to increase their output, and equips the new workers joining the labor force each year, would not be available.

Low profits mean slow progress for the economy and for workers. High profits mean rapid improvement in the real standard of living.

Since profits are so important to our progress, it is worth while to take a sharp look at:

- ▶ What happened to the economy when profits dropped
- ▶ Where profits stand now
- ▶ What the pressure of rising wages and possible inflation are likely to do to them.

High profits do not guarantee rapid progress unless they are wisely spent. If high profits are put in the vault, or spent frivolously or foolishly, they do not contribute as they should to prosperity.

Today's profits are obviously not going into vaults.

Business investment in plant and equipment made possible by profits exceeded $35 billion in 1956. This was about $601 per nonfarm worker, and was 69 per cent greater than the per capita investment, in constant dollars, made in the boom year 1929. The investment per nonfarm employe then came to about $355 in 1956 dollars.

The increase in the volume of investment which developed in the past 30 years, particularly in the past 10 years, following the return of profits to normal levels, made possible the increased real per capita consumption enjoyed in 1956.

The years immediately after 1929 show what happens when profits are lacking. Profits represented about eight per cent of net worth of manufacturing corporations in the years 1925 to 1929. They were reported as totaling $9.6 billion in 1929, compared to $35 billion for labor income. The corporate income tax came to about 15 per cent of the $9.6 billion, leaving about $8.25 billion. Of this about $5.8 billion was paid in dividends, and $2.4 billion was kept for reserves, and internal investment.

Total wages and salary payments dropped about 40 per cent from 1929 to 1932, but profits as a whole disappeared. Losses exceeded profits by $3 billion in 1932. Total losses came within $200 million of equaling total profits in 1933. Nevertheless in 1933 the government believed that higher income taxes—that is, higher taxes on profits—would stimulate a recovery.

This view, though honestly held, was based on a naïve reading of Lord Keynes' economics. As officials interpreted him, Lord Keynes was understood to have said that low income families spent more of their incomes than high income families and that all families spent more of their income faster than corporations. It seemed to follow that a tax which redistributed incomes so as to increase the proportion in the hands of low income families would increase spending and help pull us out of the depression.

So corporate tax rates were raised. Profits before taxes netted only $200 million in 1933, but the income tax, on the companies which made profits, came to $300 million. In 1934 profits netted $1.7 billion, and the tax came to $700 million. Profits netted $3.1 billion in 1935, but the income tax took $1 billion of this —more than 70 per cent as much as it took from the $9.6 billion of profits in 1929. This left little money for investment.

The obvious result was greatly to increase the federal government's dependence on income taxes.

A less immediately obvious result was the long delay in recovering from the depression.

Making business less profitable discouraged investment. Even in the relatively good year of 1941, when private wage and salary payments were 14 per cent above 1929 levels, private investment in nonfarm plant and equipment was 14 per cent below 1929 levels. Neither productivity nor real wages could rise rapidly with such a restricted outlay.

Fortunately, profits after taxes have now returned to their historic ratio to capital. Careful studies indi-

cate that today they are about where they were 50 or even 75 years ago, before corporate profit taxes were generally used.

What happened was that industry began to learn how to live with the income tax during the late '30's, and during the war.

By 1947 increasing numbers of firms were including income taxes as costs just as definitely as they included wages or interest or distribution charges.

By 1948, corporate profits of manufacturing corporations, after taxes, and after depreciation, amortization, inventory and intercorporate dividend adjustments, yielded a higher rate of return on net worth than they had in 1925 to 1929. For the years 1948-56, including the relatively poor profit years 1952 and 1954, after-tax profits returned just about the yield they had brought from 1925 to 1929.

This makes investment inviting although profits after taxes per dollar of sales are only a little more than half as high as they were 30 years ago. The fact is that investors do not put money into a business in the belief that profits per unit of sale will be high. They invest in the hope that profits per unit of investment will be high.

Profits per unit of sale are dropping because capital is becoming more efficient. If one unit of today's capital can turn out twice as much as a unit of yesterday's capital, using the same number of man hours of supervision and maintenance, the profit per unit of output can, and usually does, drop, though the profit per dollar of investment remains relatively constant.

So one key to our resumed prosperity is the fact that business has learned how to price goods so as to earn a fair return on capital after the profits tax.

In spite of this, imposts of this type fall most heavily on the efficient producer. If his costs are 20 per cent less than those of the marginal producer, his profits before taxes might be three times as high. Such profits could attract extra capital to the efficient producer, but the tax reduces this advantage as well as his internal sources of investment funds.

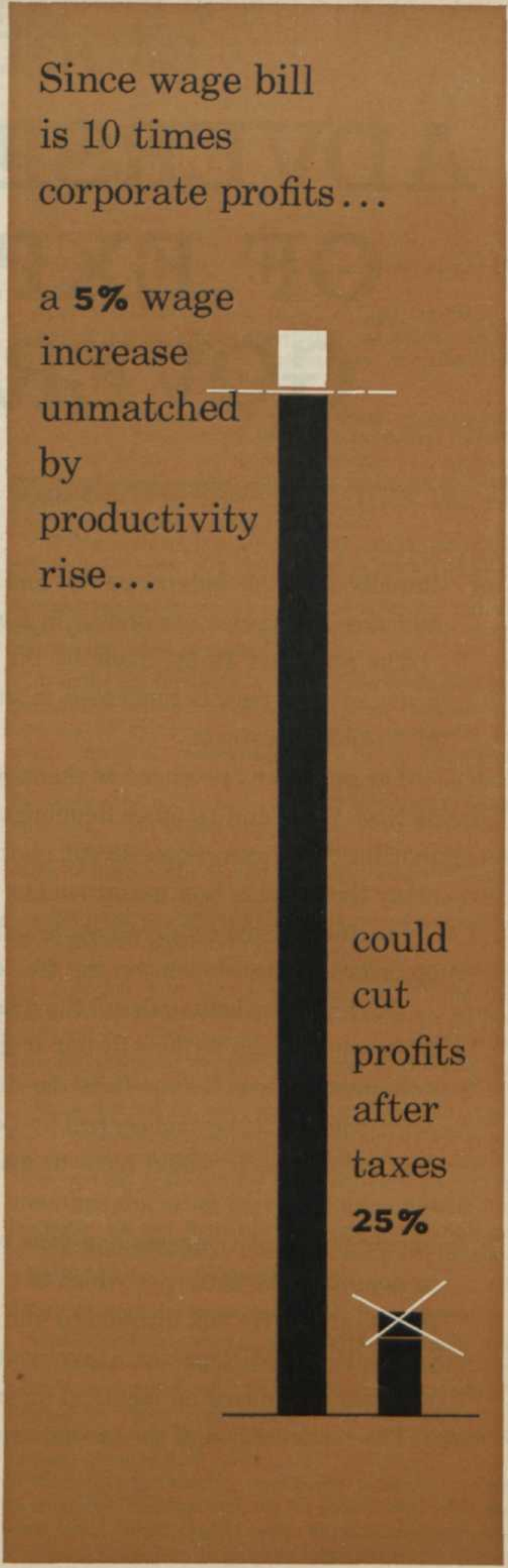
This is dangerous to the economy although less dangerous than it was before business learned how to live with the income tax.

A second new danger to the economy is the relatively recent insistence of labor that wages rise whether productivity rises or not. The result of this recent tendency is shown statistically in a report just released by the Joint Economic Committee entitled "Productivity, Prices and Income." As the private wage bill is nearly 10 times corporate profits after taxes, a five per cent increase in wages not offset by increased productivity, or reduced costs elsewhere, could reduce profits about 25 per cent after taxes. This could make the yield unattractive, and so reduce the flow of investment funds, as did the income tax 20 years ago.

This could again check progress. Capital for new workers would drop, productivity might drop. No matter what happened to dollar wages, real wages could not rise. They might fall.

This insistence that wages rise irrespective of productivity is a constantly growing threat.

Although the evidence is not as clear as it is in the matter of the income tax, the available facts suggest that recently industry has been learning how to meet this insistence that *(continued on page 95)*



ADVERSE EFFECTS OF EXPANDING GOVERNMENT

Rapidly growing federal power and its limiting effect on individual rights and free enterprise are shown in a new report prepared for Congress.

The nine-part study, made by the Legislative Reference Service of the Library of Congress, is condensed in this issue as a special service to the readers of Nation's Business.

The study was prepared at the request of Rep. Ralph W. Gwinn, Republican of New York, and 16 other Republican and Democratic legislators who believe that the American people do not realize to what extent they have already voted away their rights to a mushrooming federal bureaucracy.

Specifically, the congressmen asked for available data on the adverse effects of federal encroachment on the free enterprise system.

The findings show in detail the disadvantages of letting Washington do the work which could be done by our individual states, communities and citizens.

Representative Gwinn feels the drift toward socialism has progressed to a point where it is beyond control by Congress. He says Congress won't and can't stop it because it would have to attack the problem piecemeal. What it will take, he believes, is an amendment to the Constitution limiting the income taxing power of Congress and thus reducing the federal government's capacity to dominate the activities which are the responsibility and right of states and communities. He has introduced and will seek passage of such an amendment in the House of Representatives next session. Sen. Everett M. Dirksen of Illinois has introduced an identical amendment in the Senate.

The condensation of the special report follows.

1. Adverse effects of high taxes

- ▶ **Present tax rates put brakes on incentive**
- ▶ **Without savings we cannot maintain productivity**
- ▶ **Present tax trend means 100% socialism in next century**

FOR 1956 the per capita tax burden of all levels of government has been estimated at more than $600. About three fourths of this burden was represented by federal taxes. Twenty years ago the per capita federal tax burden was only about $30.

Not only has the per capita tax burden increased sharply but taxes have also risen in relation to national income. Though national income rose about fourfold from 1929 to 1955, federal taxes rose about 23-fold.

In the past decade federal tax collections have been sustained at levels either approaching or exceeding 20 per cent of our national income.

If we use federal plus state and local tax collections we get an even more oppressive situation. During the period 1952-55 taxes exceeded 27 per cent of national income in every year and averaged more than 29 per cent of national income for the whole period.

In the following sections of this report, historical data on the individual and corporate income tax rates and burdens are presented to illustrate how these rates have risen since their initial imposition.

Effect of high taxes on incentive to work

The table below illustrates how the federal personal income tax has increased since 1913. It shows for selected years the amount of income left after tax for certain levels of net income of a married couple with no dependents:

Net income before tax	Income left after federal income tax			
	1913	1929	1939	1956
$ 10,000	$ 9,940	$ 9,948	$ 9,585	$ 8,112
25,000	24,740	24,138	22,511	18,276
50,000	49,240	45,810	41,131	30,408
100,000	97,490	85,130	67,531	47,224
500,000	474,990	389,130	195,856	96,452
1,000,000	939,990	769,130	320,956	141,452

This table does not take into account the further reductions of income resulting from other taxes, such as the state income tax, federal excise taxes, and local property and sales taxes.

After World War II—a period of high tax rates—a special tax committee reported to the House Ways and Means Committee its concern over the effects of high tax rates on production:

"With the present scale of tax rates we have put the brakes on men's incentives to a dangerous degree by piling heavier and heavier burdens on them as they try to climb up the ladder . . . this is stultifying to the kind of dynamic long-term growth that has characterized this country in the past. . . .

"If our economy is to survive and prosper, we must see to it that men are encouraged to work and produce, to turn out better goods at lower prices. Particularly we must see to it that tax rates are not so high that a man has little or no incentive to work harder and produce more."

A study conducted by a well known economist attempted to determine the effect of high taxes on incentives of executive and managerial personnel to work. One of the questions asked in the questionnaire sent out to business firms was: "Do you believe that, the higher the tax rate, the less the incentive to work and save?" Out of 208 answers, 197 were affirmative.

In response to another question, more than two fifths of firms replying said the rate structure for the personal income tax, especially the high middle-bracket rates, has affected either the supply or quality of managerial personnel available.

Of the companies answering another survey, 75 per cent felt that high taxes were diminishing the incentive of employes at the executive level, 46 per cent noticed reluctance on the part of executives to take on additional responsibility, and 43 per cent believed the efficiency of junior executives impaired.

From this we see that one of the ways high taxes adversely affect a nation's productivity is by lessening the incentive of individuals to work. If taxes are so high—as the present taxes are—that they may take more than nine tenths of any additional income, the taxpayer will feel that it is no longer worth while to earn additional money. His productivity and the productivity of the nation suffer thereby.

Effect of high taxes on individual investments

Unless adequate savings and investment funds are forthcoming from individuals, our high productivity cannot be maintained. Businesses must necessarily depend on these funds supplied by individuals, because their own internal funds are not adequate to finance their capital needs (plant, machinery, etc.). If the individual's desire or capacity to save or invest is curtailed, business will not be able to obtain necessary funds for its capital needs to maintain high productivity. However, high taxes impair both the desire

and also the financial capacity of individuals to save and invest. In this connection Secretary of the Treasury Humphrey recently stated:

"We must create more incentive for more saving, to have more capital available for expansion. We must have it because we in our growing country have a million new people every year looking for new jobs. Unless someone can invest from $10,000 to $20,000 each for them, they cannot get a job in which they can earn the kind of wages now being paid in America.

"Without savings and investments you cannot get high productivity."

Effect on desire of individuals to save and invest

If taxes are too high, individuals who normally provide these investment funds will prefer to use them for consumption purposes, because the rate of return on invested funds will not be worth while. Furthermore, high tax rates encourage individuals to place their funds in sources such as tax-exempt bonds, which may compete with private investment.

The growth in investment in tax-exempt state and municipal bonds during the last decade has been phenomenal. From 1946 to 1955 outstanding bonds increased from $15.7 billion to $42.7 billion.

The appeal of the bonds to the high-income taxpayer is obvious. A single individual having a net income between $150,000 and $200,000 would have to receive a 30 per cent return on a corporate security to have the same net return as he would receive from a tax-exempt bond yielding only 4.2 per cent.

Colin Clark, a noted Australian economist, holds that inflation results if taxes exceed 25 per cent of the national income. He says that the first effect is on production.

The late Randolph E. Paul, tax expert who traced historically the views for and against a progressive income tax system, has pointed out that there are some who accept the general principle of progressive taxation but object to a high degree of progression, such as exists in the United States, because it adversely affects production by reducing the incentive to work and invest.

Effect of high taxes on the individual's capacity to save and invest

Even more serious is the unfavorable effect high taxes have on the financial capacity of individuals to save or invest. It is obvious mathematically that the more the government takes from individuals whose savings are channeled into investment, the less these individuals will have for these purposes.

A taxpayer has only nine cents left from each additional dollar of income over $200,000 ($400,000 on a joint return). This can be contrasted with the comparatively light burden on a taxpayer who, in the first years of the income tax (1913-15), was taxed at a maximum rate of seven per cent on income more than $500,000.

In 1956 a couple having a net income of only $10,000 would have paid the federal government 15.9 per cent, or $1,590, a sizable part of which might otherwise have been savings, although there is no telling how much of this is squeezed out of the living standard of the families in this income group. In 1913-15, when the income tax was first in effect, a $10,000 a year net income family paid only $60. A couple having a net income of $500,000 in 1956 paid to the federal government 80.5 per cent.

Effect of high taxes on investment by business

High taxes have also reduced businesses' retained earnings and other internal funds used for capital investment. A particularly acute problem is created for small business. We need only review the increase in the rates of corporate income taxes to understand how taxes can restrict these internal funds available for capital investment.

The federal corporation income tax originated in an excise tax act enacted in 1909. This was levied at the rate of one per cent on net income exceeding $5,000. The corporation excise tax was superseded by the 1913 income tax law. The federal corporate income tax rates have shown a general trend upward since the first income tax law. Today, effective tax rates range from 30 per cent to 52 per cent.

The extent to which higher corporate income tax rates have affected the percentage of profits left after taxes since 1929 is illustrated in the table. It shows not only that the percentage of profits left to corporations after taxes has been reduced but also that the percentage of profits after taxes has dropped in relation to national income.

Year	Percentage of corporate profits left after taxes	Corporate profits after taxes as a per cent of national income
1929	86.5%	9.5%
1939	78.1	6.9
1949	60.3	7.3
1955	49.4	6.5

Reductions in the per cent of profits left after taxes from 86.5 per cent in 1929 to 49.4 per cent in 1955 means that corporations in 1955 had less than half of their profits for use either to pay dividends or to reinvest in their business. Any resultant reductions in the rate of return to the shareholders in the form of lower dividends discourages the desire and curtails the capacity of individuals to invest. Reductions in the amount of reinvestment in business reduced productive capacity of the nation.

The problem of high corporate taxes is particularly acute for the small corporations. This was brought out in a recent report of the Joint Committee on the Economic Report:

"It is a widely held view that small and new businesses have limited access to credit and equity capital from external sources, as compared with larger, better-established firms. The growth requirements of small and new companies frequently involve more extensive reliance on internal resources, particularly retained earnings, than in the case of other companies. A corporation income tax rate structure which does not unduly limit the financial resources required to finance the growth of large established companies, therefore, may prove extremely burdensome in this respect for small and new companies."

Two Harvard University professors (John Lintner and J. Keith Butters), in a study of the effects of taxes on concentration, stated:

"The fact that retained earnings are a more critical

source of funds for financing expansion for smaller than for larger companies leads to a further conclusion of major consequence to our analysis: High corporate income taxes will restrict the growth of smaller firms more severely than that of larger companies. . . ."

In spite of this acute need for internal funds by smaller business, profits after taxes of small corporations have declined in recent years.

Dangers of high taxes to a capitalistic economy

The forces of high taxation in the United States have been abetting the creeping socialism in the other parts of the economy.

Data have been presented to show that, if the United States continues its rate of absorption of national product by taxes, we will reach 100 per cent socialization in the next century.

The greatest danger of high taxation lies in the fact that we are proceeding in the direction which Karl Marx in 1848 predicted would be the road to destruction of capitalism, that is, destruction of the middle class with the aid of a highly progressive tax.

2. Adverse effects of public housing

- **Depression-born housing laws don't fit modern conditions**
- **Public housing makes additional local problems**
- **Pressure grows for federal middle income housing**

THERE ARE REASONS to question the kind and extent of governmental assistance which has been developing in connection with the provision of private housing over the past 20 years.

To some this assistance appears as intervention, interference—the usurping of the powers of state and local governments—and the restriction of the rights and privileges of the private building industry and the individual home consumer.

History reveals that governmental assistance has been accompanied by, or has in effect constituted, governmental intervention. Some degree of intervention is understandable once the decision has been made to assist.

The government, no less than a private investor, desires an accounting of its funds and must establish rules designed to lessen the risks. Often, bureaucratization at its worst has resulted.

The bureaucratization which has taken place in public housing is viewed by some as no less than astounding.

This bureaucratization has largely been responsible for the growth of so-called public housing and for the varying conceptions and misconceptions as to its objectives and purposes.

These perpetually changing objectives have kept housing officials and other advocates of public housing constantly searching for new rationalizations adapted to changing economic, political and social conditions; and has kept realtors, home owners and taxpayers constantly searching for evidence of fraud, corruption and unduly high costs. Time which might be spent examining the program with a view to improving or eliminating it has been spent in its defense.

Our housing laws, initiated during a period of general economic depression, are understandably incompatible with current conditions.

In a dynamic and expanding economy, a growing group of citizens are opposed to making publicly owned housing units available to families who can afford to rent privately owned dwellings. They likewise oppose dictation from the federal government as to how they shall handle local slum clearance and renewal problems. They are impatient with the lack of understanding and consideration for local laws which may not be compatible with federal restrictions. Still others believe that the social and moral effects of public housing leave much to be desired both from the standpoint of public housing tenants and the general community.

Background

The institution of public housing through PWA had the objective of work relief and rehabilitation of the construction industry. But the objectives have changed to the provision of adequate housing for all Americans through home financing, low-cost housing, slum clearance and its corollaries—urban redevelopment and urban renewal.

A vast array of governmental machinery has been created for private and public housing, slum clearance, redevelopment, renewal, planning and public works. The Public Housing Administration is located under the Housing and Home Finance Agency in Washington with approximately 900 local authorities administering some 490,000 low-rent public dwelling units.

The city in which the housing is to be constructed has no direct control over the authority, except that it might give or withhold its consent to certain undertakings.

Once a public housing project is established or begun, the city has no direct control over its operations. Thus, public housing is usually a separate little

pocket of city government, dominated by rigid federal rules and regulations.

In any exploration of the subject of public housing two questions immediately come to mind.

Just what is public housing?

Who pays for it?

In essence, public housing is a program of federal loans and subsidies to local public housing agencies, designed to enable them to build and operate housing for rent to families whose incomes are deemed to be so low that they cannot afford adequate housing provided by private enterprise.

Who pays for public housing?

The local property taxpayer and the United States income taxpayers pay for public housing. The tenants of public housing pay rents based upon their income. Each family is required to pay not less than 20 per cent of its income for rent, including utilities. In no instance has this covered the full cost of operating and managing the low-rent projects.

According to computations by the Housing and Home Finance Agency, some public housing tenants pay less than half their rent; the taxpayers pay the remainder.

The Public Housing Administration, in its 1957 appropriation hearings, requested $96 million ($93 million approved) for annual contributions and $10 million (approved) for the low-rent housing program's administrative expenses. The Bureau of the Budget estimates that $736 million will be spent on community development and public housing during 1957; that these programs will have receipts of $556 million.

So federal taxpayers will be paying about $180 million in taxes to help communities improve facilities and to pay for the subsidized public housing. This figure does not include the cost to the local community for schools, garbage and trash collection, sewage facilities, police protection and other services; nor does it include the lack of taxation revenue from these projects.

These are the costs of public housing to the taxpayers. What about the actual cost of constructing and maintaining this government housing?

The cost of public housing

Under the Housing Act of 1949, as amended, the cost of building and equipping dwelling units cannot exceed $1,750 per room, excluding the cost of land and non-dwelling facilities. An extra $750 per room is allowed in some of the higher-cost areas.

The Housing Act of 1956 permits an extra $500 per room for dwellings designed for elderly families.

Thus, the full cost for standard dwelling unit rooms can be as high as $2,500 each; dwellings for elderly families may cost as much as $3,000 per room, if built in a high-cost area. The size of the units varies within each project. The average is two bedrooms, but a few have four or five bedrooms.

Members of the real estate and building materials industries contend that public housing is not only costly in terms of the cost to the taxpayer of the subsidy, but that the original construction costs are higher than they would be if the projects were sponsored by private groups.

The federal government's increasing role

The federal government has been assuming more and more responsibility for housing and housing policies. Federal agencies now participate in financing —doing some direct financing themselves; they construct and administer low-cost public housing projects; they advance loans for slum clearance, urban development and renewal; and give guidance to local projects.

There are indications that the government's role has not contributed to the long-term stability of the residential construction industry and cost reductions are not apparent. Increasing local opposition to government's interference points up the wide disagreement which exists as to the proper scope of federal housing activities and the administration of federal housing policies.

Some of this interference with administration at the local level can be directly attributable to the desires of the bureaucrats at the national level; some of it must, however, be laid squarely in the laps of the local and state governments. If local and state governments took more initiative in originating and carrying out the necessary programs, less interference would be forthcoming from the federal agencies. More and more, the lower levels of government seek aid from the federal government. In many instances aid is sought under the mistaken notion that "it won't cost us anything, the federal government will take care of it for us."

With public housing, as with free public anything, there is always a tendency to increase the number of persons eligible to benefit and to expand the area of authority. This is especially true if there is a possibility to catch votes. New reasons can always be found why these benefits should be extended, and unfortunately, many of these, properly dressed up, sound plausible at the moment.

The moral and social effects of public housing

There is evidence that public housing is characterized by a confusion in its basic objectives, that it has fostered restrictions upon the earnings and initiative of its occupants, that it has deterred the production of rental housing by private industry and that it has permitted the growth of power hierarchies in the form of public housing management.

The claims of the public housers that public housing eliminates slums, that it houses low-income families who could otherwise not afford decent housing, that it reduces crime, juvenile delinquency and other antisocial behavior, are open to some question. Socially, politically and economically, the segregation of low-income groups in subsidized publicly owned housing may not be the most desirable method of handling our housing problem.

Few definitive analyses have been made of the social effects of living in public housing. However, from time to time since 1934, civic leaders, sociologists and others have made short-range, somewhat restricted, studies of the adverse effects of public housing and the relationship of housing to social behavior. These studies, for the most part, have been prepared either in refutation of claims that subsidized housing is the solution to high rates of crime, illegitimacy, indolence, poor health and other social de-

ficiencies of slum dwellers and lower-income persons, or as a warning to the country of the dangers inherent in socialized housing.

Public housing tenant morale. Based upon his service as the unpaid chairman of the Housing Authority of New London, Conn., and numerous discussions of the housing problem with other housing officials, Morton S. Baratz concludes that public housing results in a serious interference with freedom of choice. Mr. Baratz presents two arguments: "First, the market for shelter has been divided in half, necessitating an elaborate and cumbersome system of rationing. Second, the administration of the rationing system has adversely affected incentives to work and has contributed to a reduction in the size of the labor force."

As to the division of the housing market, Mr. Baratz visualizes two reasonably distinct parts: "On the one hand, private landlords and builders are providing modern facilities for families earning roughly $6,000 or more per year (though the minimum figure varies in different sections). On the other hand, federally subsidized projects service families earning an average of $3,500 per year or less."

What could represent less freedom, less privacy, than the process through which an applicant must go to qualify for residency in public housing: investigation of credit records, inspection of present quarters to assure that the applicant will properly maintain his public housing unit, the submission of an income tax statement of the previous year, the signing of a waiver permitting the authority to inquire of his employer as to current earnings, and the swearing before a notary public that all the statements on his application are true and that he will report immediately any changes in his income or family composition.

In public housing projects there is a rule that tenants' income may not increase more than 20 per cent over the income earned at the time of acceptance. When income and employment are steadily rising (occupants of public housing projects are typically between 25 and 40 years of age), incomes inevitably increase—if the tenant is ambitious.

Thus, if his income exceeds the amount set by the authority, the tenant either hides the fact, or his wife withdraws from the labor market, or he has to buy a house. These are harsh choices.

There have been instances when occupants of housing projects refused overtime work and promotions for fear of being made to vacate their project home.

Public housing and the lowest income group

Public housing purports to meet the needs of the lowest income group—but it falls far short of its objective.

In 1954, six per cent of all U. S. nonfarm families had incomes of less than $1,000 and nine per cent had incomes between $1,000 and $2,000. The Ninth Annual Report of the Housing and Home Finance Agency indicates that the medium income for eligibility of families whose incomes were re-examined in 1955 was $1,793. A medium of $1,793 does not reflect a predominantly lowest income tenancy in public housing, yet almost 6 million nonfarm families in this country have incomes of less than $2,000.

In 1954, 37 per cent of the local housing authorities had income limits of $2,400 or less for admission of average size families. In 1955, only 34 per cent had limits of $2,400 or less. In 1954, six per cent of the authorities had income limits above $3,000; in 1955 this had increased to 10 per cent. Thus, the eligibility requirements are on an upward trend to permit higher income families admission to the public housing.

Slum clearance no justification for public housing

The merits of public housing as a means of ridding communities of slums need to be examined with considerable skepticism. First is the question as to whether or not public authorities are justified in changing the housing habits of thousands of citizens simply in the belief that they are thereby improving their lot in life.

Research indicates that a substantial number of persons whose total income appears adequate to allow them to live in homes that most people would consider standard, prefer to allocate their income in such a way as to minimize their outlay for housing. As is also shown, many people prefer remaining in what are widely considered to be slum conditions rather than to live in public housing projects that carry with them restrictions and disruptions of long-established customs and relationships.

Even in circumstances where slum clearance is essential or unavoidable it is erroneous to conclude that public housing necessarily provides an acceptable solution.

As shown by specific instances the erection of a public housing project on a former slum site has meant, in many cases, not the elimination of a slum but the spreading of slum conditions into other parts of the city. Not only do many persons not want to move into public housing projects, but a large number who would be interested find themselves ineligible for a variety of reasons such as too low or too high income and, in many communities, their race.

In conclusion, it can be shown that public housing projects themselves are in grave danger of becoming slums and several have apparently reached that point already.

Juvenile delinquency and public housing

Supporters of public housing frequently base their appeal on the presumed relationship of substandard housing and slum dwelling with a high incidence of crime and delinquency. These contentions do not reveal why some of the families living in slums or other substandard dwellings do not experience the social ills which the reformers attribute to their living conditions. For that matter, they do not explain why one boy in a family may be incorrigible, while his three or four brothers, living in the same environment, are not. When social behavior is concerned, the effect of housing is difficult to determine.

A study of juvenile delinquency in an East Harlem slum area revealed that:

The one unmistakable conclusion that emerges (from the study) is that there is no relationship between bad housing in its physical aspects and juvenile delinquency as revealed by court records.

In 1951, the Los Angeles police department conducted a survey of the cost of police services for the city at large, in blighted areas and for public housing

projects. Chief of Police W. H. Parker reported that he believed the data indicated that public housing police costs were at least equal to those for the city at large. Exceptions have been taken to this report based for the most part on the inadequacy of statistics and the methodology. However, the study does appear to document the fact that safe, standard housing is not a panacea for crime and delinquency.

What the proponents of public housing seem to overlook is that, in concentrating large families in a housing project, they are in most instances centralizing delinquency without offering substitutes in the form of wholesome outlets for youthful energy.

Political exploitation is inherent in public housing

A noted housing specialist, Charles Abrams, has warned against the abuse of the slum clearance and urban renewal programs

As Mr. Abrams puts it:

"Slum clearance remains the most serious myth of the housing process." Areas are demolished which should remain in the housing inventory. The homes of small property owners, who have been inhabiting their own slums, are condemned—and their only choice is tenancy. Is this the perpetuation of the dream of all Americans for a home of their own?

It is conceivable that continued subsidization of housing accommodations for the lower income groups will eventually extend to government housing of the middle-income groups. There is already much pressure on the Congress for federal governmental assistance in the construction of middle income housing. Should the government begin providing middle income housing, the votes of those who qualify will be extensive—they, too, will benefit from the housing supplied by their own tax money.

There have been some occasional incidences of overzealous housing managers using their offices for political propaganda. There have also been instances when other city officials have attempted to use the housing authorities for political gains.

How widespread this type of conduct may be is difficult to determine. It may be assumed, however, that most of the blatant incidences have been brought to light at congressional hearings.

Nevertheless, the possibility of political pressures being brought to bear on public housing tenants, managers and other officials is inherent in our public housing program.

Summary

As democratic governments are forced either in the public interest or by political pressures to assume more functions, it becomes increasingly important that the people maintain a constant vigil. A comprehensive review and reappraisal of the public housing program and other phases of the national housing program appear to be warranted.

Public housing has been a live issue for more than 20 years. Debates and discussions have been largely argumentative—they have not been studious appraisals of the program in the light of current conditions; they have not reviewed the programs and the results to ascertain if the original objectives have been or are being obtained.

This report points out some of the evidence indicating varying concepts of the objectives of public housing and delineates areas in the program which can be seriously questioned both with regard to their contribution to the promotion of the general welfare and to the welfare of the tenants of public housing.

More and more of the taxpayers are objecting to paying their neighbor's rent; city officials face the problem of congestion and its concomitants—increased services, crowded school facilities, lack of recreational facilities, overtaxed police forces; the majority of the lowest income group is still in need of decent standard housing; and slum clearance and redevelopment projects have in many instances succeeded in creating new potential slums because of the desire of those displaced by projects to remain in the same general neighborhood.

Obviously these are not the objectives of the public housing program.

3. Adverse effects of federal aid to education

- **Federal intervention promotes trend toward centralization**
- **Federal intervention has retarded state and local reforms**
- **Control results even when not intended**

FEDERAL PARTICIPATION in financing elementary and secondary education in the states mainly has taken the form of, 1, aid to special kinds of education—such as agricultural or industrial training—generally comprised within the term vocational education, 2, aid to certain localities, such as districts containing large federally owned, tax-exempt properties, and, 3, aid to an activity closely associated with education, such as the provision of school lunches.

The government also makes available federal surplus property for educational usage, and part of

this has been utilized by public schools. As to whether all these programs are basically forms of federal aid to education is a matter of opinion. It is fairly obvious that in at least one instance (that of the national school lunch program) the basic purpose is not aid to education. Nevertheless all of these programs have contributed to provisions for education in the states and local school districts affected.

The Constitution makes no mention of education. Under the Tenth Amendment the powers not delegated to the federal government and not prohibited to the states, are reserved to the states, respectively, or to the people. Since education is not among the powers expressly delegated to the United States, it falls within the provisions of the Tenth Amendment.

Some persons have contended that the general welfare clause gave the government not only the right but actually the duty to promote education. It is significant that the general welfare clause says only that: "The Congress shall have power to lay and collect taxes, duties, imports and excises, to pay the debts and provide for the common defense and general welfare of the United States . . ."

Not only under the Constitution but also traditionally in the United States, education has been principally a state and local responsibility. In our early history the organization of local school districts was a natural result of the geographical, religious, and political conditions of the time. No other aspect of American life has more clearly demonstrated the operation of grass-roots democracy than the local administration of schools.

There are dangers in departure from this tradition. Nevertheless, through the years the federal government has assumed a great number of responsibilities in this field.

The many bills for additional federal aid to education that have been introduced in Congress in recent years propose a continuation of this trend toward centralization of government responsibility for education.

Federal aid may have helped retard state and local reforms

By causing people to change their philosophy of government and look to Washington for help, federal aid programs may well have contributed to retardation of state legislation for the advancement of education.

For example, although reorganization of school districts has been one of the most important measures for obtaining better schools in thousands of localities, some states have neglected to pass laws facilitating consolidation. In many instances, legislatures have refused to define what constitutes an adequate school district or to give the state educational authority power to approve sound consolidations. In some states, in fact, there has been an actual reversal of legislation expediting reorganization of school districts.

In about half of the states the public schools are supported mainly from the local property tax. Because some school districts are rich in assessed valuations of property, they have been reluctant to consolidate with districts poorer in this respect. However, except for constitutional restrictions, the state legislatures have complete power to enforce consolidation of districts for the improvement of education throughout their boundaries. It may be that in some instances the legislatures have refrained from doing so because of the hope that a renewal of federal aid for school construction or other federal intervention would make such politically undesirable enforcement at the local level unnecessary.

Past programs, and the multiplicity of current proposals for others, may have delayed other state action for advancement of education.

For instance, some states years ago placed upon their local administrative units restrictions which have made difficult local investments in education in proportion to the ability or desires of the people. Examples are homestead exemption acts which reduce revenue, and limits on tax levies or bonded indebtedness. These are in some cases outdated restrictions.

Of greater importance is the fact that some state legislatures have not provided sufficient state aid to local school districts for education. These states have allowed their local communities to continue depending mainly upon the local property tax without drawing enough support from state sources of revenue. Thus these state governments have not only failed to utilize some of their most important sources of revenue for the support of education, but they also have failed to distribute their revenues so as to provide better schools throughout their boundaries. In 32 states during the school year 1953-54 less than 50 per cent of the revenue for public schools was drawn from state sources.

Schools which have had to depend upon the local property tax have frequently been unable to respond to expanding educational needs. In only a few states have the legislatures authorized local boards of education to secure school revenues from nonproperty tax sources.

There have been many inequities in the assessment of property and in local tax rates in many states. While some states have been using 10 to 12 sources of revenue to support education, other states have been using only one or two sources for this purpose.

A publication of the U. S. Office of Education in 1950 declared that nearly every state had some public school finance practices that might be seriously questioned. The publication stated that many of these practices were tending to perpetuate existing conditions and indirectly penalize improvements regardless of the desirability of these improvements.

These obstructions to provisions for the construction, maintenance and operation of better schools could be corrected through state leadership and state legislation. The inequities might have been removed in many instances if federal programs had not encouraged the people to adopt a philosophy of "let's get some more federal money to do the job." Federal programs have discouraged self-reliance among the states and communities.

Federal aid to education has had ill effects on our system of government in general

The increasing federal activity in education has affected not only the philosophy of government with respect to education in some localities but it also may

have had wide-sweeping effects on the general philosophy of government in other fields.

The indispensability of education to popular government has been an important premise of the American faith. The consequence of any federal influence on educational philosophy and practice (however subtle) may be a significant alternation of fundamental American political concepts.

The determination of public educational responsibility at the federal level may cause demands for federal aid to be extended to private schools. Such a situation may, in turn, endanger the nature of separateness of church and state in our system of government.

Federal activity in education may have led toward orthodoxy and absolutism, with the accompanying undesirable effects on our American system of government in general.

Waste of federal aid has led to federal controls

Prior to the enactment of the Morrill Act of 1862, all of the federal subsidies to the states for education were made for general or indefinite educational purposes and without restriction or regulation. The result was that some of the states, in what has been termed as "an administrative orgy of dishonesty and breach of trust," wasted a large portion of this money in ways which were never contemplated by Congress.

The subsequent history of federal controls in grants-in-aid has been capsuled:

"Not since the day on which Lincoln attached his signature to the Morrill Act has any distribution of money been made to the states without safeguards for their expenditures."

In 1914 Congress created the Commission on National Aid to Vocational Education to study the implications for federal subsidy to vocational education and to report their finding and recommendations. The Commission, while recommending the vocational education program that eventuated in the Smith-Hughes Act of 1917, disavowed proposing any federal control. The Commission declared that:

"The federal government has no authority to control or manage the internal affairs of the states nor can it take part in controlling or managing their educational system."

However, it has been one thing to say, as did the Commission in its statement of principles, that "national grants to the states should be given for vocational education under those conditions which will conserve and promote the local interest, initiative, and responsibility, with all of their recognized advantages," and it has been quite another matter to realize such aims as the preservation of local autonomy. From the 1914 Commission's recommendations have sprouted the current federal vocational education programs.

Certain control devices have existed in the federal legislation and in the administrative machinery.

Yet, in 1938, President Roosevelt's Advisory Committee on Education observed that:

"An excessive amount of federal control appears to have been exercised over many aspects of the federally aided system of vocational education. This control has been due in large part to the provisions of the statutes, but it also appears to have resulted in part from the manner in which those provisions have been interpreted and administered in the United States Office of Education and its predecessor in the work, the Federal Board for Vocational Education."

Federal aid has given states an "inferiority complex"

Many statistical devices have been used to indicate the relative ability (or inability) of the states to support the maximum effort needed to meet the public responsibility for education. These relative ability studies have greatly influenced grant-in-aid allocation formulas. They have done much to establish the popular notion that the states—or certain states—cannot, of and by themselves, provide for the education of their citizens without federal assistance.

The inferiority complex which has been more or less imposed upon the states can be partly attributed to federal activity in the field of education. Indeed, the rapid expansion of over-all federal power during the first half of this century largely has been both the cause and the result of this belittling of state prestige and competence.

There are, of course, differences in income and tangible wealth among the personal, family, community and regional units. There are also price or cost differences. Such differentials influence local and state taxability to some degree. That these differentials would prohibit adequate state and local support for education has not been proved.

4. Detrimental effects of federal credit agencies

- **Government lends $1 for each $5 of private lending**
- **Programs continue after need ends**
- **Some loans tend to impede progress**

TODAY THE FEDERAL government lends directly $1 for every $5 lent by private banks. Furthermore, pressure to increase the amount of government lending and expand the areas covered seems to be rising.

The major fields in which the government has instituted and expanded its loan programs are housing,

agriculture, loans to business, foreign investment and intergovernmental loans.

Some of the lending agencies have retired the capital stock owned originally by the government, pay their own administrative expenses, and are essentially privately managed, subject to governmental supervision and control. Agencies mutualized in this sense include the Federal Land banks, the Federal Home Loan banks, and the Banks for Cooperatives (partly).

However, as federal instrumentalities, these mutualized agencies are free from much state and local taxation, and in most cases also from federal income tax. Thus even these agencies have what may be considered an unfair advantage over competitive private enterprise.

Before considering the lending programs and loan guaranteeing of individual federal agencies, certain dangers and risks of governmental lending programs may be pointed out.

In principle, it must be recognized that every governmental lending and loan guaranteeing program involves the replacement of judgment and decision-making of private lenders by the judgment and opinions of government officials. It is thus an interference in the private economy.

The criteria used by federal officials are different from those of private lenders. The private lender is concerned essentially with earning a profit from lending and usually feels an immediate responsibility for the disposition of the funds at his disposal. These motives are either absent or less compelling on the part of the average federal official.

Usually federal loan programs have been instigated to bring sectors of the economy out of a depression, to minimize its severity, or to foster the defense effort. Desirable though these objectives at a given time may be, there is first the question as to whether a federal loan program is economically and politically the soundest way of achieving them. The government has available such alternatives as monetary and fiscal policies which can be used to further defense and antidepression goals, without the arbitrary intervention in specific parts of the economy that is inevitable in lending programs.

Second, all federal programs have a tendency to be extended and perpetuated long after the original cause for undertaking them has been removed.

The governmental intervention in the economy by means of lending programs inevitably involves considerable favoritism. Firms or individuals who fail to meet the credit standards of private lending agencies receive an unfair competitive advantage if they are then granted a loan by a governmental agency. In deciding where available loan funds should be allocated, federal officials often find the pressures of political considerations too strong to permit evaluation of loan applications on sound business principles alone. Further, standards for loans, which originally are specific and strict, gradually are relaxed, allowing even more room for laxity of administration, favoritism, and even corruption.

Housing loans

The federal government has assumed a rapidly increasing role in determining the levels of housing construction. Before World War II, about one sixth of the mortgage debt on nonfarm one- to four-family homes was insured or guaranteed by federal government agencies. By the fall of 1955, the total home mortgage debt had increased to approximately $86 billion—about 37 per cent government underwritten.

As a result of these government guarantee and insurance programs, mortgage loans have been substantially increased in duration, down payments have been lessened, and interest charges have been lowered. Government activity in housing has been a significant factor in stimulating the building boom during much of the post-World War II period, with the result that building costs and prices of new as well as existing houses have been materially increased.

The lure of home ownership has been a significant factor in the postwar migration to the suburbs. This has created innumerable problems for urban centers. Property values, especially of rental property, have been adversely affected. Construction of moderately priced apartments has been severely cut back. Adequate maintenance has been neglected. Slum areas have tended to spread, which in turn has invited further government intervention in slum clearance and urban renewal. As the real estate values in urban areas have been jeopardized, tax revenues have fallen, or have failed to keep pace with the increasing demands for municipal services.

These conclusions are borne out in more detail in the following discussion of specific housing programs.

Federal National Mortgage Association

Although the Federal National Mortgage Association makes no loans directly to individuals or institutions, except for certain housing in Alaska, its portfolio of FHA insured and Veterans Administration guaranteed mortgages represents the largest volume of loans in the housing field by the government. Its outstanding loans (mortgages) as of the end of June, 1956, totaled $2.5 billion. The FNMA was chartered on Feb. 10, 1938, and in 1954, was made a constituent agency of the Housing and Home Finance Agency.

The Federal National Mortgage Association has been subject to severe criticism.

It is possible that the continued propping up of the housing industry by this agency (and others) is retarding technological improvements in the housing industry and delaying the movement toward lower housing costs.

There is a serious question whether the special assistance activities will interfere with the sound management of the secondary mortgage functions. Such pump priming activities, potentially inflationary, should probably be abandoned.

Federal Housing Administration

The Federal Housing Administration insures private mortgages for a wide variety of types of home and housing construction. This program has relieved private lenders of a substantial portion of the risk formerly assumed on mortgage loans.

The history of the Federal Housing Administration has been marked by a lowering of qualifying standards and an expansion of function well beyond that intended in the original legislation.

Veterans Administration

The Veterans Administration has as one of its

major functions guaranteeing housing, business, and farm loans made by private lenders to World War II and Korean war veterans.

It also makes loans directly to veterans for the purchase or construction of homes in areas where the guaranty program is ineffective because of lack of private loans at 4½ per cent interest. The Treasury reports that these direct loans outstanding, as of June 30, 1956, totaled more than $433 million.

While there was a substantial need to assist in the readjustment of servicemen at the end of World War II and, to a somewhat lesser extent, at the end of the Korean war, the question remains whether loan and loan guarantee programs were the most desirable device to achieve rapid readjustment. In any case, there is even less reason for retaining these programs, many years after the end of the respective conflicts.

Lending institutions whose loans to veterans are guaranteed or insured under the various Veterans Administration loan and guarantee programs are receiving, in effect, a subsidy from the government which is assuming risks which the lending institutions themselves normally would have to assume.

Public Housing Administration

Although the Public Housing Administration is not primarily a lending agency, it makes loans and grants to assist local authorities in the construction of low-rent public housing. This program reached its peak in 1952 when nearly $1 billion was lent.

Since then the major portion of these loans has been liquidated, the loans being assumed by private investors.

However, the housing authority bonds purchased by private investors are secured by the pledge of the annual contributions of the Public Housing Administration which are intended to supplement the net proceeds from operation of the low-rent housing programs.

The Public Housing Administration also makes short-term loans for planning and construction costs.

Urban Renewal Administration

The Urban Renewal Administration is a constituent unit of the Housing and Home Finance Agency. Among its responsibilities are loans to municipalities to clear and redevelop slums and to rehabilitate and improve blighted areas. In addition, it guarantees private temporary loans through the pledge by local agencies of the federal loan commitment. Thus in this area, too, the federal government's role involves considerable intervention in the specific problems of local communities.

Community Facilities Administration

The Community Facilities Administration was established as a constituent unit of the Housing and Home Finance Agency by the same order that created the Urban Renewal Administration. It is responsible for administering, among other programs:

1. Loans to institutions of higher learning to finance student and faculty housing and other educational facilities.

2. Public facility loans to state and local governments to finance construction of needed public works.

3. Liquidation of a program of loans made to manufacturers of prefabricated houses and components. This program was originally in the Reconstruction Finance Corporation.

The lending programs of this agency have expanded rapidly as requirements for loans have been liberalized. The low interest rate, 2¾ per cent, has had such undesirable repercussions that the Commissioner of the Community Facilities Administration, John C. Hazeltine, has requested that Congress raise it to 3⅛ per cent. The present rate has virtually eliminated all private investors from the college housing field, leading the commissioner to predict, "Increasing pressures will be placed on the federal government to make direct loans aggregating billions."

Thus we have the prospect that the low-interest rate actually slows down critically needed college housing construction.

The 1955 Housing Amendments also authorized $100 million for a new program of loans to local governments for public facilities, such as water and sewage systems.

Home Owners Loan Corporation

The Home Owners Loan Corporation, formed in 1933 to preserve home ownership by refinancing foreclosed or delinquent home mortgages, is no longer in existence. By June 30, 1952, it had acquired 1,017,821 mortgages involving more than $3 billion, and had liquidated all of these mortgages. Its operations provide a useful example of how the true cost of a lending program can be concealed.

HOLC borrowed from the U. S. Treasury at a rate of one per cent a year, substantially less than the Treasury paid on its borrowings from the public. Thus the $14 million earnings which HOLC paid into the Treasury in 1951 does not reflect a profit for the government as a whole. According to the General Accounting Office report on audit of HOLC accounts, the cost to the Treasury for supplying funds to HOLC since 1933 was about $92 million.

Housing and Home Finance Agency liquidating programs

All told as of June 30, 1956, the Housing and Home Finance Administration had, in the revolving fund of various programs in liquidation, loans receivable outstanding totaling about $156 million. This is in addition to all the active programs carried on by the various constituent agencies of the agency.

Agricultural loans

In agriculture, lending programs of a considerable variety have grown substantially in the past two and a half decades.

The farm lending agencies have been a factor in the greater availability of credit in rural areas than in urban areas during a period of generally tight credit. As the governor of the Farm Credit Administration, R. B. Tootell, noted in December, 1956, competition from the Federal Land Banks and from Production Credit Associations have helped to keep interest rates of commercial banks from rising as much as elsewhere.

To the extent that this easy credit in rural areas is the result of governmental action, urban areas are paying a premium in terms of higher interest rates over what would prevail if the credit supply were more

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Commodity Credit Corporation

In terms of volume of loans outstanding, the Commodity Credit Corporation is the major agricultural lending agency in the government.

By far the most important CCC lending programs are its price support operations. Sizable as these loans are, they reflect only a part of the price support program.

As of June 30, 1956, while CCC loans totaled $2.3 billion before reserve for losses, and $1.9 billion after reserve for losses, the corporation also had a commodity inventory of $6 billion before reserve for losses, and $3.9 billion after reserve for losses.

Its total assets were $7.5 billions as of June 30, 1956. Its capitalization, originally $3 million in 1933, has been increased to $100 million.

Originally it had no specific borrowing authority. When Congress gave it a permanent charter in 1948, its borrowing power was $4.7 billion. This was raised five times in eight years.

As of Aug. 1, 1956, it was $14.5 billion.

In the second category of CCC loans are the farm storage and equipment loans made to encourage farm storage at lowest cost of the commodities it holds as security on its loans. If storage facilities in an area are inadequate, CCC will make, or will guarantee if made by a private lending agency, recourse loans to producers for a maximum of 80 per cent of the cost of new farm storage facilities.

In the third category are loans to the Secretary of Agriculture for the purpose of making crop insurance premium advances, soil conservation payments, and certain other payments, and to pay the administrative costs of the county committees handling such programs. These advances are repaid to the Commodity Credit Corporation out of a congressional appropriation at end of the fiscal year, with interest at least equal to the cost of money to the CCC. None are outstanding at present.

Although these loans do not compete with private funds, such an enormous lending operation makes waste, fraud, and inefficiency inevitable.

Rural Electrification Administration

Since 1935 the Rural Electrification Administration has been making loans, chiefly to cooperatives, for financing construction of electrical distribution, transmission, and generating facilities to serve rural areas. Since 1950, similar loans have been made to finance construction and improvement of rural telephone systems. Interest rates are set at two per cent. Administrative expenses are financed by a separate appropriation.

This is another example of a program which has grown larger and larger. In 1956 it lent $229 million to electric cooperatives compared to $180 million in 1955. Although 90 per cent of all farms are now electrified, the Rural Electrification Administration seems to make no effort to require those to whom it lends to become more self-supporting, to rely more on private bank credit, to pay competitive interest rates, and to bear the costs of administration. Until such steps are taken, the taxpayer will continue to bear a part of the cost of these facilities which are of direct benefit to a relatively small segment of the population.

Farmers Home Administration

The Farmers Home Administration makes loans to farmers presumably unable to obtain credit from other sources for farm operation expenses and crop production, farm ownership and improvements, and for soil and water conservation activities. These loans are financed by annual authorizations. It insures long-term mortgage loans, and soil and water conservation loans. It administers emergency loan programs for farmers hit by production losses from natural calamities, or by unfavorable economic conditions.

The program was started as a relief measure at a time agriculture was seriously depressed. But the time is long past when it could be considered primarily a relief agency. Further, there has been a substantial shift of population away from farming which also should make it possible to cut back on this phase of farm aid. It is also dubious that a lending program is the most feasible way of carrying out its functions.

Other agencies are authorized to make loans to cover disaster and other emergency situations, and to help farmers carry out soil conservation programs. Thus, there is unavoidable duplication when this agency handles these same functions.

In addition, the low interest rates, long terms of loans and the government's bearing the administrative costs, have meant that the taxpayers have been subsidizing a limited group of individuals. These loans have in fact probably tended to discourage marginal farm operators from shifting into other economic activities and have encouraged the retention of many farm units that are too small to be efficiently operated.

Farm Credit Administration

The Farm Credit Administration, though it is not a lending agency, is the supervisory authority for some important governmental and quasi-governmental lending agencies: Federal Land Banks, Banks for Cooperatives, Federal Intermediate Credit Banks, Production Credit Corporations.

The United States is divided into 12 farm credit districts, each with one Federal Land Bank, one Bank for Cooperatives, one Federal Intermediate Credit Bank, and one Production Credit Corporation.

The Federal Land Banks were established in 1916. Since 1947 their capital stock has been entirely owned by member national farm loan associations which act as agents of the banks in making long-term first mortgage loans on farm real estate.

Since their mutualization, these banks have been subject to relatively little adverse criticism.

The Central Bank for Cooperatives and the 12 banks for cooperatives are federally incorporated agencies making loans to farmers' cooperative associations. The majority of the capital stock is held by the federal government. The Farm Credit Act of 1955 provided for the retirement of the government's investment and the eventual ownership of the banks by farmers' cooperatives.

As long as these banks have their capital provided in large measure by *(continued on page 56)*

HOW'S BUSINESS? today's

An authoritative report by the staff of The Chamber of Commerce of the United States

AGRICULTURE

Producers of feed grains and livestock will move a step closer to a free farm market in 1959—if a recent Department of Agriculture recommendation is enacted.

This year Congress requested the Department to study and report on possible methods for improving the feed grain program.

The Department's recommendation would drop acreage allotments for corn in 1959 and require the Secretary of Agriculture to determine support prices for all feed grains at moderate levels—presumably from 60 to 70 per cent.

The existing program, including the revised soil bank with its tighter control over diverted acres, would continue through 1958 in an effort to trim the big surplus of corn prior to lifting acreage restrictions.

In addition to freeing production controls, the Department expects the new program would hold market prices closer to the support level, help stabilize year-to-year supplies of feed grains and livestock, enable more orderly marketing, and reduce costs to the government. Income might be reduced to some grain and livestock producers during the transition years.

The longer range outlook anticipates substantial increases in requirements for livestock products and feed grains. However, the report does not attempt to estimate future price and income levels.

CONSTRUCTION

In spite of the liberalization of down payments and the higher interest rates for FHA insured mortgages, there is little indication that the new housing act will do much to stimulate the housing industry during 1957.

Harnessed by the discount control provisions, which proved unworkable when used in the past, the Act fails to provide ample reason for enough money to be channeled into home mortgages.

As the year progresses, the public housing groups feel more and more confident that 1958 will be a big year for them. They have lined up for their biggest fight ever for federally subsidized middle-income housing. The target: at least 200,000 public housing units for the fiscal year 1959.

CREDIT & FINANCE

Main aspects of the money market will remain unchanged during the remainder of the fall. The Federal Reserve will continue its active restraint program.

Business loans may drop some in the larger metropolitan centers, with less easing elsewhere. Demands for long-term credit will continue strong. Prime rates of commercial banks may be raised over the current four per cent level. The Federal Reserve Bank regional rediscount rate may also advance upward beyond the three per cent now authorized.

The municipal bond market will continue brisk, with the general price trend slightly downward.

Continued hearings on fiscal and monetary policy by Congress will point up the threat of inflation.

Of the three major hearings now in progress in the finance field, all are expected to continue through the summer and fall. Prolonged hearings before the House Banking Committee on a new financial institutions act stopped action on the bill's passage this session.

DISTRIBUTION

Department store and general retail sales are continuing at about the same high level, according to Federal Reserve and Bureau of the Census figures. Latest figures do not conclusively show a gain or loss over the same period of last year when adjusted for seasonal and price variation.

Consumer buying habits will be watched closely in the weeks immediately ahead.

The reason: Recent consumer attitude research by the University of Michigan Survey Research Center shows consumers are less confident about business conditions than they have been.

Generally, it is reasoned, confidence means willingness to buy, incur debt, spend money.

Lack of confidence, by the same reasoning, leads to caution, putting off purchases, saving money.

Enough is not yet known about consumer attitude sampling to show definitely why people are thinking this way, or whether their attitudes will lead to a change in buying behavior.

FOREIGN TRADE

The authority of the Export-Import Bank of Washington to make loans to aid in financing this country's foreign trade has been extended to June 30, 1963.

During the fiscal year just closed, the Bank authorized 182 credits in 36 countries totaling more than $1 billion. The Bank has averaged 50 credits in 22 countries totaling $396 million annually since fiscal 1947.

Credits during fiscal 1957 were extended to Argentina, Japan, and the United Kingdom, among others. Borrowers will buy in the United States a wide variety of capital equipment for use abroad. The largest dollar volume of these credits will be spent for railroad equipment, with purchases of industrial equipment second; agricultural commodities (largely cotton) third; steel mill equipment fourth; and aircraft and airport development fifth. Other credits will be used for transportation (other than railroad); electric power plants, thermal and hydro; highway construction; and agriculture.

GOVERNMENT SPENDING

The administration is taking up the cudgels for economy in earnest, and will continue to do so. Econ-

outlook

omy signs have been good to date. Reductions in unneeded military forces, establishment of spending ceilings, and closer checks upon civilian hiring stand out.

Agencies are re-evaluating the need for many of their activities, and there is increasing hope that a lot of dead wood will be eliminated.

Aim is to keep within fiscal 1957 expenditures—just under $70 billion. If that's successful, the way could be paved for some tax reduction, provided the economy stays healthy.

Keeping expenditures down, however, faces many problems in the months ahead. July's expenditures ran about $1.5 billion ahead of July 1956. August also was running ahead, although signs of contraction appeared. These should continue in September. But reduction in spending rate will have to continue at an accelerated pace in the next few months before it is feasible to talk of tax reduction in the 1958 session of Congress.

LABOR

A controversy that could shake the foundations of International Labor Organization (I.L.O.) will be revived this November at Geneva, Switzerland.

The occasion will be consideration by the I.L.O.'s powerful Governing Body of proposals which would grant full recognition and acceptance of so-called employer and worker representatives of Iron Curtain countries in the I.L.O.

The employer delegation to I.L.O. from the United States has fought to stay such recognition, and has repeatedly pointed out the deceit in efforts to put free world employers and Iron Curtain employers into the same class. Nevertheless, the tide in I.L.O. seems to be running in favor of the communist bloc.

In the past U. S. business criticism of I.L.O. has stemmed also from the tendency of the organization to write international draft treaties, or conventions, on matters of traditionally domestic or strictly internal concern.

NATURAL RESOURCES

Will increasing reliance on imports of foreign oil mean lower or higher prices for domestic petroleum products?

Congressmen from non-oil-producing states have raised this question. You'll hear more from them in the months ahead.

President Eisenhower, under authority granted him by the Trade Agreements Extension Act of 1955, has determined that the volume of crude oil imports and proposed imports for the remainder of 1957 threatens the national security.

The President has asked all companies importing crude east of the Rockies to cut their imports 10 per cent below their average crude oil imports for 1954, 1955, and 1956. If they do not comply with this request for voluntary action, rigid import quotas will be imposed.

Last quarter figures on imports—available about December—will provide a clue as to whether or not the tight quotas will be ordered.

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TAXATION

Success of the economy drive and its almost certain repetition next year, administrative measures to limit fiscal 1958 spending, and the upcoming political campaign all point to the probability of a tax reduction next year.

Both parties will be seeking the "We did it" label and the maneuvering will be fascinating.

This year's battle of the budget was in large part a reflection of disappointment and resentment over failure of the national government to make possible the tax reductions so confidently expected.

Members of Congress, as well as the public, expected a lower—not higher—budget. Hundreds of tax relief bills were introduced in the first days of January and many more later. None except technical measures have progressed even to the extent of hearings.

The 1959 budget will almost certainly recognize the popular demand for a better fiscal plan.

The probable result taxwise? In the best political tradition, a vote-getting present to individuals applicable to 1958 earnings.

TRANSPORTATION

Highway administrators, engineers and builders can take some satisfaction from their first year's work in getting the multibillion dollar federal-aid road building program under way.

Nearly twice as much road work was obligated from federal-aid funds in '57 as in '56 and on the interstate system nearly nine times as much.

This record of accomplishment was achieved in the face of such obstacles as shortages of engineers and materials; deficiencies in organization, standards, and procedures; and strong opposition from the public to many route locations.

A total of $3.3 billion of federal and state funds was obligated for the federal-aid system.

This compares with $1.7 billion obligated during the same period for fiscal 1956. An unusually large part was right-of-way acquisition and preliminary engineering.

Estimates of receipts and disbursements from the Highway Trust Fund have almost precisely equaled the earlier estimates. Some $970 million was spent and $1,500 million deposited.


"You

continued from page 51

federal funds, they will enjoy a considerable advantage over private banks. Having these funds available without payment of interest or other charges has enabled them to accumulate earnings, and in some instance to lend at rates of interest more advantageous than borrowers would have had to pay to other lenders.

The Federal Intermediate Credit Banks are now under the supervision of the Farm Credit Administration. These banks make loans to, and discount paper for production credit associations, the banks for cooperatives, state and national banks, agricultural credit corporations, livestock loan companies, and similar financing institutions. Certain types of loans are made to farmer cooperatives. The funds they lend are borrowed from private sources. The equity capital is owned by the federal government.

There seems little reason for these banks to be federally owned. A system of privately owned production-credit discount banks, regulated and supervised by the Farm Credit Administration, would probably have all of the advantages and few of the disadvantages of the present system.

The Production Credit Corporations are wholly owned by the United States. They supervise and assist nearly 500 production credit associations in the extension of agricultural production credit, and in some instances partly finance them through investment in capital stock.

Bills were introduced in the Congress in 1956 to merge production credit corporations in the Federal Intermediate Credit Banks and to retire the government's capital in the latter.

Loans to business

Federal loans to business center chiefly in the Small Business Administration.

The other business loan programs, including those connected with defense production, have not generally involved losses to the government, or have been comparatively insignificant.

Small Business Administration

The Small Business Administration was established in 1953 but its growth has followed the pattern established by other lending agencies. It offers a variety of types of assistance to small businesses; this report will be limited to its lending functions.

Loans fall into two categories, business loans and disaster loans.

Total amounts authorized for these loans and the amount of the revolving fund appropriated for these loans have increased steadily. The original act authorized business loans up to $150 million and disaster loans up to $25 million. The disaster loan fund was increased in February, 1956, to $125 million. In February, 1957, the authorization for business loans was increased to $230 million.

The revolving fund of SBA, which covers both business and disaster loans, started at $55 million, was increased to $80 million in 1954, to $105 million in 1955, and increased twice in 1956, first to $125 million and then to $175 million. It was increased again in February, 1957, by $45 million, to a total of $220 million.

The growth in the lending programs of SBA is due in no small measure to the liberalization of loan requirements and the widening of the area of eligibility for loans. It is potentially the most diversified of all government lending agencies. Few kinds of business are now ineligible under its program and no specific end to its expansion is in sight.

Since the lending authority of the Small Business Administration is so broad, there is a serious danger of favoritism and of assisting certain businesses which thereby obtain an unfair competitive advantage over their rivals. Any conceivable volume of lending by SBA is bound to provide loans for particular firms that are no more deserving than scores of others who are turned down, or, more important, who, relying on their own resources and on private credit facilities, do not apply to a federal agency for help.

Although it is too early to evaluate the effects of SBA's lending program in terms of return to the government, there is at least some evidence that a number of loans were approved without sufficient thought as to availability of private capital, ability to repay, and the effect of the loan on the borrowers' competitors.

Maritime Administration

In 1956 Congress liberalized the law under which the Maritime Administration of the Department of Commerce insures private construction loans and mortgages on most types of cargo and passenger-carrying vessels. As a result the volume of insured loans has increased rapidly and is expected to grow still further. It is possibly ironic that legislation designed to facilitate private financing has involved such an extensive program of government insurance. It seems apparent that, without this insurance, the level of shipbuilding privately financed would have been far lower.

The question remains, how sound economically are such construction projects if private capital is unwilling to support them without a federal mortgage insurance program.

Export-Import Bank of Washington

The Export-Import Bank of Washington was established in 1934 as part of the national recovery program. Its purpose was to aid in financing and thereby stimulating exports and imports and the exchange of commodities and services in foreign trade. More recently it has come to be regarded widely as an instrument of U. S. foreign policy.

There are a number of reasons why a continuation of this agency may be viewed with some concern.

The original justification for the agency has long since disappeared.

Further, it is of dubious economic merit to encourage exports and at the same time admit additional imports only grudgingly. Unless the countries whose imports of American goods are financed by Export-Import Bank loans are thereby put in a position to increase their exports to the United States, the American government faces the risk of adding one more give-away program to those already accumulated.

Resentment is bound to be created between nations receiving loans and those who are turned down. To the extent that loans are made to foreign importers

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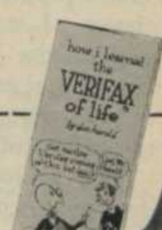

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of American goods, it is even more doubtful that the funds will be used in a way to help the industrial development of their own countries.

It seems likely that the goals of American foreign policy cannot, in most cases, be reached by a government lending program as well as by other more direct programs. In cases where a loan program seems warranted, it is quite likely that the International Bank for Reconstruction and Development, of which the U. S. is the major stockholder, is a more appropriate agency.

It is in a sense ironic that the U. S. has exclusive control over one bank designed for foreign lending and at the same time is the leading stockholder in its closest counterpart.

(EDITOR'S NOTE: *The full report analyzes the activities of several additional lending agencies. These analyses are omitted in this condensation, either because the volume is small or has little direct impact on the economy. Bureau of Indian Affairs loans to start Indians in agriculture and Veterans Administration rehabilitation loans to disabled veterans are examples.)*

Conclusion

Few segments of our economy have not, in one way or another, felt the impact of government loans. Furthermore, all evidence points to a continued expansion of these programs.

There can be little consolation in this trend for those who are clearly dedicated to a free private enterprise economy, operating with a minimum of governmental intervention, either in terms of control, regulation, or promotion.

It is virtually axiomatic that governmental assistance itself leads inexorably to a considerable degree of governmental control.

Those in favor of a truly free private enterprise economy would, therefore, do well to make their opposition to this extensive program of government loans known. Only in this way does it appear possible to have the current trend reversed.

5. Dangers of federal electric power

- **Federal power causes power shortages**
- **It is not now essential for defense**
- **All federal power is subsidized**

IN 23 YEARS, the federal government has multiplied its power generating capacity about 76 times—from 232,000 kilowatts in 1933 to about 17 million kilowatts now. In doing this, the government has invaded what traditionally has been primarily a field of private enterprise.

This field involves millions of Americans who are participating directly or indirectly in the generation and distribution of electric power by private utilities. These people are participating directly through purchases of stocks or bonds, and indirectly through investments by insurance companies, banks, or religious and educational organizations and trust funds.

Thus the public can actually claim some form of ownership of the private electric companies.

The philosophy of federal ownership of power does not encourage the people of a region or a country to rely upon their own genius, their own initiative. To allow the federal government to take over where a private enterprise can engage profitably with benefit to the area encourages a careless and unaggressive attitude in the people of that area.

A private company must be inventive and must encourage the creative genius of its employes to provide better service to its customers and for greater profit to the business—a government agency feels no such urgency. Our history proves how important this factor has been in creating our high standard of living and technological developments. The electric industry itself is living proof of what Americans have achieved in the stimulating and competitive system of free enterprise.

This subsidized federal power is unfair. Not only are sections which do not have federal power paying for the power developments in areas such as the Tennessee Valley and the Pacific Northwest, but they stand the chance of losing some of their industries to these areas.

Besides being harmful to general competition in industry, federal power is unfair to private electric utilities which must charge higher rates because they pay higher taxes and must make a profit. The rates charged for federal power do not include charges for federal taxes. Only in a few cases do federal agencies make payments to states and local governments in lieu of taxes. When such payments are made, they are generally only a small part of the amount the regular taxes would be.

In many instances little or no interest is paid on the money used, since the money is supplied by all the people through taxes.

Since taxes and interest on money invested in plants and facilities are two of the biggest items of cost in the utility operation, the federal agencies can sell electricity at below real business costs.

Spurious comparisons are made of the alleged cheapness of public power. Such cheapness merely reflects

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the subsidies garnered by the federal power plants. The owners of private utilities pay federal, state and local taxes; pay interest on their bonds; pay dividends; pay taxes on their dividends; and still do not charge rates higher than people can or are willing to pay. The rates and earnings of private electric companies are regulated by governmental commissions; consequently they are not allowed to make excessive profits.

Magnitude of federal power operation

The federal government is by far the largest single producer and supplier of electric power in the United States.

It supplies practically all the electric utility power in Tennessee and is a major producer and supplier in Alabama, Mississippi, Washington, Oregon, Montana, California, Arizona and Nevada. During 1953, the federal government produced electric energy in 22 states and sold it in five additional states.

Federal electric power capacity grew from 232,000 kilowatts, or 0.7 per cent of the national total in 1933, to 17 million kilowatts, or 14.8 per cent by Dec. 31, 1955.

Further additions provided through completion of construction in progress and authorized by the Congress are expected to increase generating capacity to approximately 35 million kilowatts, at a total cost of about $10 billion.

These federal electric properties will, if completed, include at least 168 hydroelectric plants, at least 17 steam-electric plants, and substantially more than the present 23,000 circuit miles of transmission lines.

In addition to this federal power, nonfederal public bodies generated seven per cent of the total in 1953, an increase from 5.5 per cent in 1933. Private investor-owned power, which amounted to 94 per cent of the total electric generating capacity in 1933, dropped to 76 per cent by Dec. 31, 1955—a decline of 18 per cent.

Of the hydroelectric power developed in the United States, more than 50 per cent is generated by public agencies, with the federal government's share being 40 per cent and local public power's share 10 per cent.

The largest federal electric power system is that of the Tennessee Valley Authority located and operated in Kentucky, Tennessee, Alabama, Georgia, Mississippi, North Carolina and Virginia. The capacity as of June 30, 1956, of these TVA plants was 9,279,485 kilowatts.

This exceeded by more than twofold the capacity of our largest private electric utility system, the Pacific Gas and Electric Company system.

The additional capacity of TVA plants now under construction and those on which the TVA proposes to start and complete construction through fiscal 1960 will raise its capacity to nearly 12 million kilowatts. That capacity, by then nearly 75 per cent steam-electric, will constitute about six per cent of the nation's total electric utility power capacity as estimated for 1960.

From inception in 1933 to June 30, 1955, the United States government has made available to TVA through appropriations, bond purchases, and property transfers, a total of $2,015,490,529. For the same period TVA has recorded a net income of $301,427,523 from its power operations and net expenses of $159,290,652 for its other programs. TVA has repaid to the United States Treasury a total of $178,635,890. The resultant equity of the U. S. government in TVA was $1,978,991,510 on June 30, 1955.

All federal power is subsidized

Those favoring big government favor control of electric energy by government. Such control can only be gained if the movement has popular support. The most obvious means of obtaining this support is price. To be politically desirable, public power must be made to appear cheaper than investor-financed power. Actually, in a country of such technological competence as ours, real cost differences in power production as between public and private development in a given area will be of little significance—provided all costs are included in each.

For example, comparative studies of costs by the Atomic Energy Commission revealed that (assuming a uniform fuel cost of 19 cents per million BTU's and excluding all taxes), TVA energy at Oak Ridge costs 3.78 mills per kilowatt-hour and at Paducah costs 3.93 mills, compared with the investor-owned Ohio Valley Electric Company cost of 3.79 mills per kilowatt-hour at Portsmouth, Ohio.

With true costs about the same, the only way an advantage can be shown for public power is by subsidizing it.

All federal power is subsidized through one or more of the following forms: 1, use of interest rates lower than the actual cost of long-term money; 2, omission of interest during construction; 3, omission of federal income taxes or a comparable contribution to the cost of the federal government; 4, omission of state or local taxes (with two exceptions, TVA and Hoover Dam); 5, charging large parts of the initial capital costs to wholly subsidized federal activities such as flood control, navigation, fish and wildlife preservation; 6, charging administrative costs, insurance, and pensions to other government accounts.

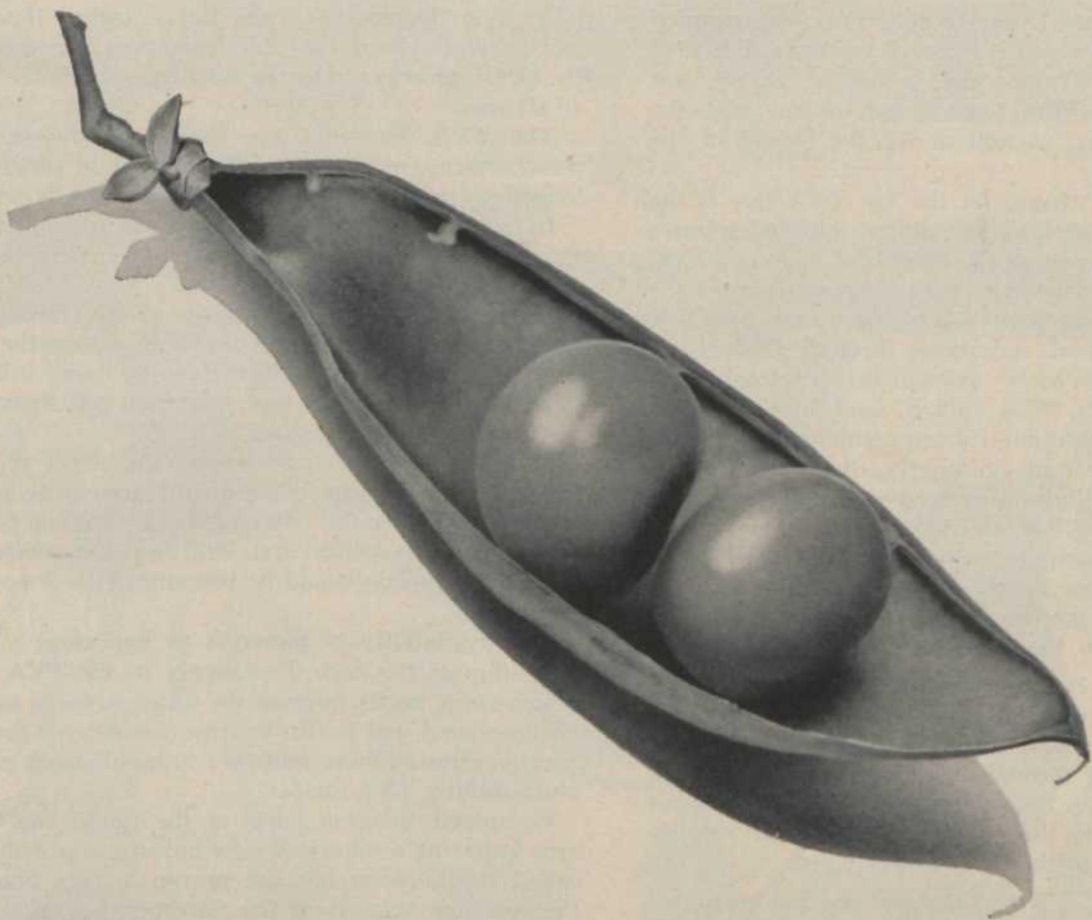
Because federal power is thus subsidized and because hydroelectric sites are not uniformly located in all states, the federal taxpayers in many states find their tax payments going to subsidize the users of federal power in other regions.

Cost allocations—another form of subsidy

Another form of subsidy of federal power has resulted from improper allocation of costs.

Multiple purpose development, because of allocations of the joint or common costs to the various functions served, provides savings over the cost of single purpose structures. This results in lower costs of any one of the functions, such as hydro power, navigation, flood control, etc. So long as the power development is incidental to the major purposes of flood control, navigation or irrigation, a case may be made for allocation of costs in accordance with approved methods such as the separable costs-remaining benefits method or the alternative-justifiable-expenditure method.

However, where power is a predominant purpose of the structure, as in many recent developments, and therefore in direct competition with private industry, it can be argued that the full cost of the single



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structure required for power development only should be allocated to power in the multiple purpose structure and the savings resulting from such allocation be applied to repayment to the Treasury for the other purposes served.

If the government's power operations are regarded as a business in which it is properly engaged, then it should be operated for the benefit of, or at least without loss to, the federal government and the federal taxpayers, as well as for the benefit of the power users.

The principal reason for the low TVA rate is the fact that the power pricing policy followed relieves users of TVA power of the burden of making a sufficient payment in the price paid for power toward the costs of the government in carrying on the program.

For TVA's total operations through 1953, there would be (on this basis) a deficit between total financial requirements ($794 million) and total operating revenues ($695 million) of approximately $100 million, or 14 per cent. Similarly, the total cost of service ($803 million) would have exceeded revenues by about $108 million, or 15 per cent.

From this, it can be assumed that increasing the TVA power rates 15 per cent would eliminate the subsidy to TVA power users by the general taxpayers.

The conclusion, therefore, is:

1. That, partly because of its failure to charge as a cost the three per cent interest on borrowed funds which the federal government has had to pay through 1953, and partly through the small payments in lieu of taxes, the TVA has understated its costs by about $108 million and that an equivalent power subsidy has been given to the TVA power users.

2. That, if the TVA had charged the fair regulated rates which other power consumers have to pay, at least a 30 per cent increase in TVA rates would be justified.

3. That TVA power rates and revenues, which allow for the payment of all operating costs, depreciation on investment and approximately four per cent return on the government's investment in power, include an item of $30 million in lieu of taxes—and this is $170 million less than federal, state and local taxes would have totaled during the period if full accrued taxes (especially the federal corporate income tax) had been paid.

4. That the allocation of costs by the TVA to navigation and flood control adds a small additional advantage to TVA rates over the rates which must be charged by private utilities, but that this is a declining advantage with the increase in the proportion of steam plants with the TVA system.

Federal power causes power shortages

To meet fluctuations of peak demand and allow for outages, etc., a reserve of at least 15 to 20 per cent in generating capacity is considered good practice. Certainly, one of the most important duties of a public utility is to provide an adequate supply of power to meet the increasing demands of consumers.

The margin of reserve was sharply reduced in 1947 as the demands for electric power, pent up during the war, grew faster than new capacity could be installed. But since 1949 the electric utility industry has caught up with the demands and now has brought the margin between generating capacity and demand to between 17 and 20 per cent. Consequently future installations need only keep pace with increases in demand and retirement of old machines.

As these figures show, the public utility function has generally been fulfilled throughout the country by local nonfederal sources. But this is not the case in all areas.

The TVA area and the Pacific Northwest face power shortages, because of the manner in which the federal projects have been administered.

In fact, by 1954 the hydro power was insufficient for the loads of municipalities and cooperatives in the TVA area.

It is obvious that TVA power development is a policy of self-perpetuating socialism within the private enterprise system. It makes the local utilities dependent upon public power and then gets their support to extend public power!

It is also pertinent to review the effect of this federal utility responsibility on the growth of industry in Tennessee, the heart of the TVA area. Many people would conclude that, with low cost power, industrial expansion would be booming. This is not the case.

The availability of power is as important a consideration as the cost. The supply in the TVA area is uncertain, partly because the water power is nearly all developed and partly because the federal government is growing more reluctant to build steam plants and subsidize TVA further.

Compared to other parts of the South the TVA area is having a relatively slow industrial growth. So-called cheap power has not proven to be a boon to the economy because of the uncertainties caused by the fact that the federal government is the sole supplier of power to the area.

Federal power is monopolistic

This steadily increasing utility responsibility by the federal government can lead to what, in effect, is a federal monopoly on power development in the region.

For example, Adm. Ben Moreell, in his book "Our Nation's Water Resources," cites the TVA, under its sole supplier clause, as requiring all of its regular utility customers to take their entire supply from its facilities.

This policy creates an obligation on TVA to build all the generating facilities which are needed in the area it supplies. The result is that TVA has built large steam plants and extensive transmission systems. Distributors have no generating facilities of their own.

Federal power not now essential for national defense

The need for federal power in the interest of national defense has been frequently used to justify projects or appropriations. Yet $21 billion has been spent by investor-owned electric companies for generation, transmission and distribution facilities since World War II, while total expenditures of the federal government from the beginning of its program in 1906 to mid-1953 are only $2.3 billion. These figures re-

fute the allegation that public power is essential for national defense.

Federal electric power is a menace to the private enterprise system

The hydroelectric power activities of the federal government were initially associated with navigation, irrigation and flood control, and were justified under the commerce clause of the Constitution. The development of power was merely incidental to these other functions.

However, not only are some projects now justified mainly because of the power development, but the government has felt the need to go the next step further. Because water supply varies considerably and only so much of it can be counted on for a firm power supply, a more dependable additional source is needed. Steam power, which can be produced from a dependable fuel supply, is the best source of this additional power.

Since steam power production does not aid navigation, prevent floods or provide irrigation, and since it has little to do with interstate commerce, advocates of public power are making other justifications for these plants. They assert that federal construction of steam plants is necessary for defense or for the general welfare. If it becomes established that the federal government can build hydroelectric and steam power plants wherever it wishes, then the federal government may be pressured to take over more and more of this traditionally private business in even larger areas.

The local business character of power production and distribution could thus conceivably die, not only because of the federal government's development of hydroelectric power and building of steam plants, but because it is, so far, the sole developer of atomic energy. If the federal government holds the monopoly on this great potential source of power, all power could eventually come under its control.

Federal public power is socialistic

Some of the advocates of public power deny that it is socialistic. But here is what Norman Thomas, five times candidate of the Socialist Party for President of the United States, had to say about it:

"The principle behind public development of power is socialistic and it is rather childish to deny it."

In a press conference on June 18, 1953, President Eisenhower was asked to give examples of what he had previously referred to as creeping socialism. The President gave as his example, TVA. He said that he had been asked to expand federal expenditures in the TVA region. The federal government had seized and was purchasing a monopoly in power there, and it was impossible for the locality now to expand unless the federal government would spend more money.

President Eisenhower asserted that the TVA region quoted as one of its needs for power the fact that so many industries from other sections—New England and other places—wanted to come down there seeking cheap power. The President said:

"So we get to this curious thing in the socialistic theory that we provide such cheap power for one region that it can take away the industries from the other sections. It seems that we have got to have some kind of re-evaluation of all these things."

6. The case against federal reclamation

- **The record of estimating costs is shockingly poor**
- **On many projects repayment is remote**
- **Subsidies spread seeds of socialism**

ONE OF THE FUNCTIONS of the federal government is the collection and expenditure of the taxpayer's money. In spending these funds, it is responsible for determining the most efficient and equitable use of the money.

Projects which are nonreimbursable should be those which benefit all the people.

Taxpayers should not be asked to subsidize projects or parts of projects from which they derive little or no benefit.

These principles have been violated by the Bureau of Reclamation projects.

To pass these projects by Congress, proponents have claimed dubious benefits. Especially noteworthy has been the abuse of the benefit-cost ratio which permits fabricating a case for the feasibility of a project.

To be economically sound, a project must produce total benefits exceeding total costs. However, an undertaking is not truly economic unless it is the best use of capital and resources and the least costly means of achieving a desirable end. The best solution can be found only by giving equal consideration to all possible measures, with a view to finding the combination which will produce a maximum of net return.

Many of the nation's economists agree that in the past two decades the Bureau of Reclamation has been more interested in finding a use for surplus waters of the West than in planning and constructing economically sound projects. Fortunately for the taxpayers, the Bureau of the Budget, through issuance of criteria

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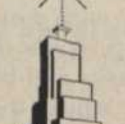

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late in 1952, put a brake on the Bureau's efforts to disregard fair and equitable methods in their zeal to develop the West.

Benefit-cost ratio

Until a few years ago, standards of feasibility of constructing reclamation projects had been progressively lowered mainly because the benefits claimed as offsets to costs of these projects were exaggerated. The benefit-cost ratio should include valid reasons for constructing projects, not mere excuses for justification. If a close relationship exists between direct benefits to immediate beneficiaries and their ability to repay their proportionate part of the cost, the benefit-cost ratio formula will have more chance of being realistic.

The Engineers Joint Council recommended in 1951 that both benefits and costs should be expressed in tangible monetary terms and should be accurate and realistic.

Many groups, including the E.J.C., suggested that the benefits to be considered should be net benefits—the total of the net annual income and other tangible benefits minus all costs incurred by the beneficiaries (as distinguished from the federal government) in attaining those benefits and further, minus all disadvantageous or injurious, but tangible, results of the development.

The Council recommended that, in order that federal water resources developments may qualify as being economically justified, the ratio of tangible benefits to cost, each on an annual basis, should not be less than 4 to 3. In cases where the factors entering into the ratio cannot be estimated closely or where they may not be realized for a long or an indefinite period in the future, the corresponding ratio should not be less than 2 to 1. Depending upon the relative probabilities of realizing within a reasonable period the benefits and costs involved, the requirements, as to the ratio, may appropriately be intermediate between 4 to 3 and 2 to 1.

These recommended ratios of benefits to costs are not observed by the Bureau of Reclamation. The Fryingpan-Arkansas Project, which the Bureau has been trying to get through Congress, has a ratio of direct benefits to cost of only 1.05 to 1. At that, the benefits are estimated many times greater than the ability of the irrigators to repay.

Because of rising prices, it is unrealistic to reappraise the benefits and costs by the same multiplier or price-level index.

Costs become fixed as of the time of construction or expenditure, whereas benefits will vary from time to time in the future, depending upon not merely changes in price level but also technological progress in respect to the alternatives for the several functions of a given water development.

Benefits derived from increases in food and fibers

Although there is merit in increasing our food and fiber production, care should be taken that the most efficient manner of bringing this about is adopted and that it comes at a time when it is needed, not when it may add to the problem of surplus production.

In the first place, the increased land to be brought under cultivation through irrigation in the arid West is a small per cent of the total land now being harvested. If all the available water were used to the maximum extent, about 17 million more acres of new crop land would be added. Since 345 million acres are harvested at present, it would add less than five per cent. The foods and fibers that would be produced by these reclamation projects would be relatively minor.

In contrast, the Department of Agriculture estimates that there are 60 million acres of new land in humid areas suitable for first class crop production, once it has been properly drained and cleared. The drainage and clearing method of providing new crops represents about 17 per cent of the present total crop land acreage.

The costs of the projects to be undertaken by the Bureau of Reclamation in the 17 western states are high—estimates per acre on the Columbia Basin Project are between $500 and $600 and estimates on the Upper Colorado River Storage Project run even higher. For the proposed Fryingpan-Arkansas Project, the costs run $219 per acre for a supplemental water supply of 0.5 acre-feet per acre, which is equivalent to $1,166 per acre for a full water supply. This presents a serious question as to the justification for reclamation projects in general and for the consideration of the Fryingpan-Arkansas in particular. The average value of the irrigated farmland in the Fryingpan-Arkansas area does not exceed $225 per acre.

In contrast, average costs per acre of drainage run about $40 in the Southeast and from $8 to $25 in the Mississippi River Delta. Cost of land clearing ranged from $50 to $100 per acre in the Northeast where brush was cleared for seeded pasture, from $95 to $160 per acre where woodland was cleared for cultivated crops, and from $15 to $30 per acre for light clearing of abandoned fields.

However, there is reason to believe that food and fiber requirements for our estimated 1975 population can be supplied by the existing farmland acreage.

It should be concluded, therefore, that projects should not be justified on the basis of increasing the food and fiber supply.

In addition to estimates of subsidiary benefits based on farm income, it has been customary to claim presumed increases in trade and commerce as offsets to the construction cost of projects. These have usually been computed on the gross volume of new business without recognition of the fact that no benefit is derived from the mere circulation of money. The Engineers Joint Council stressed that, for such benefits to accrue, there must be tangible gains to those who transport, process, and distribute goods to the ultimate consumer, all without increased cost to him.

The Council concluded that, regardless of how they are estimated, subsidiary benefits should not be lumped with direct offsets to costs to determine the feasibility of any project or unit of a project for the development of the water resources. Where such costs must in large part be defrayed out of tax revenues of the federal government, all subsidiary benefits will be no more than the margin above cost to which the general public is entitled.

Justification by projects rather than river basins

Arguments have been advanced for determining the feasibility of projects in a drainage basin collec-

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tively, even where the projects were not mutually dependent. To adopt such practices would be likely to increase the amount subsidized by the general taxpayer, and would encourage uneconomical projects.

Individual developments or projects should each be subject to the standard criteria of economic justification including margin of benefits over cost, except where such projects are physically and of absolute necessity interdependent. No exceptions should be given to orderly stream development or to drainage basins. To allow such exceptions would result in using surplus values or benefits accruing from the stronger projects to make up for the deficiencies of the weaker projects.

Financing and repayment

In the first 50 years of the reclamation program (1903-1953) the federal government undertook 91 projects. These projects have cost much more, taken much longer to be paid for, and irrigated less acreage than was originally estimated.

Between 1903 and 1911 the Secretary of the Interior authorized 25 federal projects. In 1910, at the time Congress made funds available for their completion, the estimated cost was about $147 million—an increase of $79 million over the estimated cost at the time of authorization a few years before. Up to June 30, 1952, these 25 projects actually had cost nearly $304 million, and the estimated cost of completion was about $368 million. This is a 440 per cent increase in costs.

Of the 25 projects, four with 78,600 acres proposed for irrigation had to be abandoned with a loss of $1.3 million. In addition, Congress wrote off $16 million of the cost on 16 of the remaining 21 projects to reduce the repayment obligation until it was within the ability of the farmers to pay.

Between 1911 and 1933, 11 projects were authorized. At the time of authorization, these projects were estimated to cost $203.8 million, more than half of which was for Hoover Dam. On June 30, 1952, $281.8 million had been spent and the estimated completed cost was $305.3 million. At the time of authorization, it was proposed to make water available to 1,441,430 acres. However, the irrigation allocation as of 1952 is to supply 994,494 acres, of which 814,952 were irrigated in 1952.

One of the 11 projects had to be abandoned and Congress wrote off $2.4 million on three other projects. The reimbursable portion of the ir-

(continued on page 72)

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rigation allocation has been set at $123.2 million, of which power income is to repay $890,582 and water users $121.3 million. Of this latter amount, $92.8 million is under contract; accruals total $5,419,705.

Only four of these projects have been able to maintain a 40-year repayment schedule. The Owyhee projects schedules call for complete repayment by 2039, Grand Valley by 2029, and Vale by 2024—all about 100 years after authorization. Owyhee and Vale have repaid less than 15 per cent.

Between 1932 and 1942, 34 projects were authorized, three of which have a poor record of both estimating and repaying costs. These are Central Valley, Columbia Basin, and the Colorado-Big Thompson. The estimated cost of 32 of the 34 projects of this decade at the time of authorization was $917 million. The completed cost of these projects, as estimated in 1952, was $2,161 million, and of all 34 projects, $2,199 million.

Of the 1952 estimated completion cost, $656.2 million or 29.8 per cent is charged to power, $259.5 million or 11.8 per cent to flood control and other nonreimbursable purposes, $1,283 million or 58.3 per cent to irrigation. Of the total irrigation allocation, nonreimbursable items for relief and other purposes amount to $29.9 million, leaving $1,253 million to be repaid—$661 million from power revenues, $565 million by the water users, and the remainder from other sources. Contracts to cover the water users' obligation amount to $385.7 million on which $3.4 million or less than one per cent of the water users' obligation has become due and been repaid.

At the time of their authorization, these projects were supposed to irrigate 5,209,707 acres. However, the 1952 estimate came to almost 1 million less, or 4,490,168 acres.

The three big projects, Central Valley, Columbia Basin and Colorado-Big Thompson plus Davis Dam and San Luis Valley and Palisades projects account for $1,136 million of the $1,244 million increase in cost of all projects between the time of authorization and 1952. The increase in cost for these six projects amounts to 147 per cent, as compared with an increase of about 74 per cent for the other 26 projects.

Seven of the other projects in this group have a high degree of write-off. They are W. C. Austin, Buffalo Rapids, Buford-Trenton, Eden, Mancos, Mirage Flats and Newton. Originally estimated to cost $17 million, the 1952 estimate was $33 million, an increase of 93 per cent. Write-offs amount to $18.5 million, about $2.5 million more than the increase in cost, and 115 per cent of the original estimates.

Between 1942 and 1953, 20 projects were authorized. The total cost estimated in 1952 was $445.7 million. Again, some of the projects were poorly estimated. Hungry Horse, for example, was estimated to cost $48 million at the time of authorization. But the 1952 estimate was $102.9 million.

The Missouri Basin contract, approved by Congress in 1944, is so large that it requires special attention. In 1944, the Bureau of Reclamation portion of the Missouri River Basin project was estimated to cost $840 million. In 1953, the same work was estimated at $3.7 billion, an increase of 343 per cent. The entire plan was reconsidered, and in 1956 the project was estimated at $2.8 billion, which was a 234 per cent increase.

Two projects of the original plan are good examples of the poor planning and unnecessary expenditures of the Bureau of Reclamation. The original plan included the Missouri-Souris project in North Dakota and the Oahe project in South Dakota.

The original plan for the main division of the Missouri-Souris project called for irrigation of 1,275,000 acres—more than one fourth of the total area of new irrigated land (4,760,000 acres) contemplated for ultimate development under the plan. The cost of bringing this land under irrigation was to be $123 million. By 1952 the estimated cost had risen $438 million.

After construction had started, soil experts of the North Dakota State Agricultural College, and others, questioned the feasibility of irrigating much of the land included in the project. This led to a special investigation by a board of three outside experts, and a finding that a large proportion of the land should not be irrigated.

Thereafter, the Bureau of Reclamation abandoned its efforts to develop this area.

The proposal to irrigate 750,000 acres in the James River Valley of northeastern South Dakota in connection with the Oahe project followed a similar course. The plan authorized in 1944 contemplated irrigating the 750,000 acres at a cost of $84 million, or more than $300 per acre. Agricultural officials of the state seriously questioned the feasibility of the project from the agricultural standpoint, as did some individuals within the Bureau of Reclamation itself.

These developments led the Secretary of the Interior to appoint a

three-man committee of disinterested experts to study the proposed unit. This committee has concluded that it would not be feasible to develop some 250,000 acres of the area originally selected, and that the remainder of the area should not be put under irrigation unless expensive drainage systems were first installed.

The situation is further complicated by the fact that the Oahe area is in a belt where the annual precipitation of from 21 to 24 inches makes it possible to grow, in most years, good crops of alfalfa, corn, and other field crops without irrigation. All the land is privately owned, and it is certain that in the circumstances outlined a great majority of the farmers would not care to burden themselves with high-cost irrigation works which would stand idle much of the time.

The Upper Colorado River Storage Project was approved by the President in April 1956. It authorized $760 million to be appropriated for four storage projects and 11 participating projects. Of the $199,749,400 allocated to irrigation, $80,546,500 will be paid by the water users, leaving $119,202,900 to be repaid from power revenues.

The power features will be paid off first, with interest, from the sale of electricity. After those expenditures are liquidated in an estimated 50 years, the power profits would be used to pay off the costs of the irrigation aspects of the plan. According to Robert LeRoy Cochran, ex-Governor of Nebraska and an official of the Bureau of the Budget, such repayment, if ever made, would take considerably more than another half century.

Mr. Cochran also pointed out that the power features might well be obsolete in 50 years.

Meanwhile, because of the high construction costs per acre of the irrigation works and the accumulating unpaid interest, the federal subsidy would be enormous.

Conclusion

Reclamation does not pay for itself and has no general and regularly observed rule of repayment nor any contractual term which cannot be changed at any time. On many of its projects there is only a remote possibility of repayment, and the costs will ultimately be written off by the taxpayers. The write-offs plus the interest add up to a considerable sum, which is taken out of the pockets of all the people for the benefit of a few.

In its conservation and control of waters, the federal government is depriving the recipients of some of

their liberties. Under the 1939 Act, the Secretary of the Interior was authorized to make contracts to water users which, in effect, put the government in permanent possession of the water rights, even after the costs allocated for repayment have been paid off in full. The reason given to Congress for this form of contract was to provide relief for water users unable to comply with the statutory 40-year period.

The Engineers Joint Council has stated that there was no need for the federal government to acquire any proprietary rights to such waters. Intrastate waters should remain in the control of the individual states. Jurisdiction over interstate waters can best be effected through compacts between states.

It can be seen that the federal government, in its role as the trustee in charge of disbursement of tax revenues and in its role as a banker responsible for the soundness of his loans, has failed to meet many established economic and financial principles.

Water resources have not been developed when they are needed, for we are spending millions irrigating land for additional crops at a time of agricultural surplus. The claim that these lands will be needed for the food and fiber supply of future generations is made without taking into consideration other means which may provide a greater supply at far less cost. Reclamation projects, therefore, are not being developed to meet proven economic requirements. The abuse of the benefit-cost ratio and the dreaming up of dubious benefits to make the project look good are examples of the failure to meet these requirements.

Those who are receiving the primary benefits from reclamation projects are not paying the cost of those benefits and the taxpayer ends up paying for a large share of the benefits that the farmers within the project area are receiving.

Such actions, although not socialistic in the full sense, tend to undermine the free enterprise system of growing crops and meeting the country's food supply. Certainly, through these federal subsidies, which are fast getting out of hand, the seeds of federal paternalism or even socialism are further spread.

7. Adverse effects of grants-in-aid on the federal system

- **In eight years the money being spent for federal grants has doubled**
- **Some states depend on grants for 20 to 30 per cent of their budgets**
- **Federal encroachment on state authority jeopardizes the federal system**

THE FEDERAL SYSTEM is so ingrained in America's character, tradition, and political institutions that any force which in any way touches upon it or affects it should be a matter of serious interest and concern to all the people. This statement rests upon two basic assumptions: First, that American federalism is a highly desirable and essential configuration of government; and, second, that it is a fairly sensitive and complicated mechanism.

For these reasons, the role of grants-in-aid in our society deserves our most thoughtful consideration. Both the number of grant programs and the amount of money involved have shown marked increases in recent years. Unless basic changes are made in policy, there is every indication that this upward cycle will continue.

This trend, if not reversed, poses a real threat to the federal system. Power accompanies money, and as the states and even the local units have become more and more dependent upon federal funds and have witnessed the progressive intrusion of the national government into what have always been considered their own areas of responsibility, they have found their activities, authority, and the control of their own destinies more and more circumscribed. Conversely, the government in Washington, already heavily burdened with legitimate responsibilities with which it alone can deal, continues its encroachment into the field of state govern-

ment. By undertaking projects and services that could be handled more expeditiously and less expensively at the state and local level, the federal government, through the grants system, has jeopardized the equilibrium of the federal system. It is not surprising that many people believe that the grants program, as it now exists, is wrong and dangerous in principle, wasteful and inefficient in practice, and that we can ignore its implications for the future only at peril to our fundamental political values and institutions.

Brief history of grants-in-aid

Grants on the vast scale to which we are now accustomed are strictly a product of the Twentieth Century and primarily a development of the past 25 years or so.

Especially since World War II, both the dollar expenditures for grants-in-aid and the number of grant programs have shown a steep climb. In sharp contrast to the $900 million of federal money spent for grants in 1946, something more than $5 billion, including money from the highway trust fund, is budgeted for grants for fiscal 1958. This becomes even more shocking when one considers the great prosperity enjoyed throughout these years.

During approximately this same period, the number of separate grant programs has substantially increased. More than 50 programs are now in operation, and more than half of them have been set in motion since 1944.

With the addition of new grant programs, the expansion of established programs, and the staggering increases in the amounts of money involved, has come additional federal control over the destinies of the states. Once these controls become entrenched, they are difficult to dislodge. The growth of federal authority within a state means a consequent loss in the state's own authority and an increase in its dependence upon the central government. There is a real danger that this trend will get completely out of hand, with the result that the states will degenerate into no more than geographical and administrative units under an all-powerful national government.

If it should come to this, our federal system, instead of being the strong and vigorous arrangement of governments which has done so much to preserve our freedom, would become no more than a cherished memory of the good old days.

Federalism and grants today

What is the condition of our federal system today? Is it still in good health? Does it still contain the strength to serve the nation as well in the future as in the past? These are vitally important questions to the American people, and we are fortunate in having at our disposal a wealth of current data from which to seek the answers. Within the past few years the federal system has been subjected to, perhaps, the most thoroughgoing examination in our history. The Commission on Intergovernmental Relations brought together a substantial amount of useful information and analysis which merit the careful consideration of all who wish to understand federalism in the United States.

The Commission report observes that "the national government has gradually undertaken some new activities which are susceptible of a large measure of state and local handling," and that the more effectively state and local governments can function "the less occasion there will be for by-passing state action in the future."

In the final analysis, the report continues, "the preservation and strengthening of our federal system depend . . . on the self-restraint and responsibility, as well as the wisdom, of our actions as citizens." Tolerance and room for diversity of policy must be maintained if we are to preserve the essence and not just the legal fiction of federalism. We, as citizens, have the duty to make certain that the needs of the people that could be dealt with by state and local governments do not, by default, have to be met by the national government.

Economic inroads of grants into state government

Broadly speaking, under the grants-in-aid system the federal government, through its taxing powers, draws money out of the states and then reallocates it to the states in accordance with the types of grant programs in effect, the distribution formulas in effect, and the needs of the states.

Any type of grant-in-aid redistributes the wealth because most federal taxes are based upon ability to pay whereas grants are apportioned primarily upon the basis of needs, as accurately as these needs can be determined.

The federal government becomes, therefore, an arbiter of who gets what and how much.

Many people regard the round trip the money takes from the states to Washington and back as being, at the least, absurd, unnecessary, wasteful, inefficient, and unjust to the more prosperous states. At the

worst, this procedure threatens to sap the states of all their vitality and purpose while the national government grows ever larger and more powerful.

The movement of taxing power from the state and local governments to the national government is a comparatively recent development. A study made by the government of Indiana revealed that in 1932 local and state governmental units collected and spent three fourths of all taxes, leaving one fourth to the federal government. In 1954, this study goes on to say, the reverse was true. "Three fourths of all tax dollars go to the federal government, one fourth to local and state units." It is interesting to note that this inversion coincides closely with the burgeoning of grants-in-aid.

This shift in tax power and the concomitant mushrooming of the number of grants programs and the money involved in them has been noted by a number of other observers. For example, Harley L. Lutz, a distinguished economist, has expressed his alarm over what this may mean to the future relationship between the federal government and the states. He says that the increasing taxing power of the national government has reduced the capacity of state and local governments to meet their costs out of what tax sources are available to them. This makes the apparent case for grants seem stronger, resulting in higher federal taxes and still fewer tax sources for the states. Here indeed is a vicious circle. If this policy is allowed to continue and expand, the dependency of the states upon federal money could become so great that they would lose all their capacity to resist domination from Washington.

It has been asserted that the states cannot or will not raise the money at home and spend it for services the people want, and that, therefore, the federal government must undertake these responsibilities. Since the money comes from the states in the first place, the validity of this argument can be questioned.

The fiscal aspects of grants have damaged American federalism in other ways than just through the tendency of the national government to take over so many tax sources. The desire to get free money has tempted some states to expand grant programs that simply do not need expansion. As a result, other services in these states that may really need development often have to suffer.

Another phase of this fiscal domination of the states by the federal government is revealed in the feeling of compulsion states sometimes experience to spend unnecessarily and beyond their means just to get some of their own money returned to them.

The idea that federal grants represent free money and a real saving is about as persistent in some minds as it is erroneous. It is not unusual for a project within a state to cost more with federal assistance than if it had been built solely with local funds.

The purely administrative costs of federal grants are impossible to calculate accurately. The New Jersey Taxpayers Association is probably correct in saying that "no one knows." Although there are figures available that show administrative costs for a few programs as being almost 20 per cent of the total grant, it is doubtful whether these costs can be as exactly determined as the amount, say, of an over-all appropriation. A dollar taking the trip from a state to Washington and back to the state certainly undergoes a measure of shrinkage, and it is not surprising that many people wonder why it has to take this trip at all.

In still another way the fiscal features of the federal grants have brought about the intrusion of the national government into what is generally considered to be purely a state affair. The states' own internal budgeting problems have been greatly increased by grants, and as federal aid has come to make up more and more of each state's finances, the budgeting difficulties have likewise increased. When one considers, for example, that the budget for Ohio for 1953 included 49 different federal appropriation items, the problems of that state's budget officers become immediately apparent.

The state's budget is to some extent contingent upon what action the national government takes from year to year with regard to grants. The long view of the state's financial prospects is, therefore, difficult to conceive, and a lot of second-guessing is required of state officials. All of these problems are heightened by the fact that with some of its grant programs the federal government by-passes the state treasury and the state's budgeting operations, and there is a tendency for the state to lose control of the whole situation.

Administrative and political inroads of grants into state government

To get federal aid for a project, a state must comply with the rules laid down by Washington. This also applies in many cases, to the wages paid workmen, although these

wages may well exceed the prevailing rate for similar work. If a state cannot or will not comply, the money may not be forthcoming.

The setting of project specifications by remote control from Washington is only one of the many ways by which the federal government is chipping away at state autonomy. The establishment of standards for state personnel who handle grant money presents another foot-in-the-door approach by which the federal government can exercise some control over the states. As with project specifications, these personnel criteria are often set with little or no regard for the accepted traditions or practices of the various states.

Controversies between the national government and the states that are directly or indirectly attributable to the setting of these personnel standards have been commonplace.

It may not always be true that the placement of state employes under civil service standards and their enforced compliance with these standards work to the benefit of a state agency. A provision to this effect is, however, incorporated in some grant laws. The genuinely harmful results of this provision were noted in Massachusetts. Personnel standards in that state have been lowered in the Public Health Commission as a result of the enforced application of civil service rules.

The services of some exceptionally trained medical men have been lost because they did not wish to be restricted by the rigid civil service requirements.

It is not only through the establishment of personnel standards that the federal government, in its grant programs, tends to weaken the governments of the states in ways concerning personnel. There are elements that rarely go down on paper and psychological factors that are occasionally as real and injurious to the states as they may be intangible.

For example, there is sometimes a problem of loyalty. It should be safe to assume that the primary loyalty of a state employe is to his superiors and to his state government. But if this employe's job is to administer federal grant money, he may find himself in an uncomfortable position if the interests of the state should conflict with a grant program. Although it certainly can be assumed that the overwhelming number of government employes at all levels of government are conscientiously trying to do their best work, it would be naïve to conclude in all cases every employe would

shun what he believes to be his own best interests in such a test.

The government also may coerce a state into a reorganization of its governmental structure.

For instance, compliance with the provisions for public assistance grants may require a state to designate a certain agency or set up a special agency to administer this money.

The fact that a state believes that its existing facilities may be adequate or that its own plans might be better than those prescribed by federal law may make no difference. The reorganization must be undertaken regardless.

One of the most damaging effects of federal grants-in-aid upon the strength and structure of state governments is their tendency to weaken executive control and responsibility and to increase greatly the problems of efficient administration. Too often the governor finds that he simply cannot do his duties well and thoroughly because of the way grants are administered. Too often for the same reason the administrative apparatus of the state is splintered and disintegrated and by no means as effectively under control as it should be.

A management consultant firm found, for example, that in Connecticut the necessity for the state to comply with certain federal administrative criteria in order to get grant money discourages, if it does not actually prevent, quality administration.

It was found that some state agencies in South Carolina that are administering grant funds are developing and growing in a different direction and at a different speed from those agencies not handling federal money.

More than 50 years ago James Bryce listed as one of the blessings of the federal system the belief that "it prevents the rise of a despotic central government, absorbing other powers, and menacing the private liberties of the citizens. . . . The states are represented as bulwarks against its encroachments."

Less than a decade ago, in a report on federal-state relations prepared for the First Hoover Commission, a study group declared:

"Through the grants-in-aid, the national government influences, and to some extent controls, 75 per cent of the total activities of state governments. With grants goes control. With control goes power. With power goes centralization—and in too much centralization lies danger to our entire federal system of government."

Since those words were written the amount of money being spent for federal grants has doubled.

There is reason to think that new grant programs calling for new expenditures, as well as increased outlays for established programs, are to be expected in the future. Not including expenditures from the highway trust fund, the 1958 budget estimates that net expenditures for aid to state and local governments will be more than $500 million greater in fiscal 1958 than in fiscal 1957.

Grants for the established programs continue to rise. Primarily as a result of legislation enacted in 1956, payments to the states for public assistance are expected to be $97 million higher for fiscal 1958 than for 1957. The net increase in all other established programs totals $249 million. Although there will be some decreases, they will be more than offset by numerous increases in such categories as construction grants for waste-treatment facilities and aid for schools in federally affected areas.

The assumption of new powers by the government has moved steadily ahead during the past generation. A study made a few years ago by the Legislative Reference Service lists almost 200 governmental functions which have been transferred from the states to the federal government or to joint control since 1920. This is just a selected, not a definitive, list.

Money allocated for grants constitutes five or six per cent of the total federal budget, but it makes up a much higher proportion of many state budgets. Over the years the percentage of state budgets supplied by grant funds has tended to increase, making the states progressively more dependent upon this money. In 1915, only 1.2 per cent of the total state revenue receipts came from federal grants. In 1929 this figure had reached 5.2 per cent.

Through the late 1930's and into the World War II years, the proportion of total state revenue derived from grants remained between 13 and 14 per cent. It dropped to 10.9 per cent in 1945, but had risen to 13.2 per cent by 1947. In 1954, 16.9 per cent of all general state expenditures came from federal grants. These figures are averages for all of the states. Several states receive from 20 to 30 per cent of their budget in the form of grants, and in a few states the ratio is even higher.

This dependence of the states upon grants today and the trend toward even larger grants and greater centralization of power in Washington are interrelated phe-


AIRMATIC

nomena that do not foreshadow a hopeful future for either the states or the federal system. The prosperity and strength of the states and of American federalism are inseparable. They will flourish or fade together.

Our grants-in-aid may be leaving largely unmarred the façade of state sovereignty and the formal structure of federalism, but their substance is being drained off. The longer we ignore or remain indifferent to this trend, the more difficult it will be to arrest or reverse it; and for the possible tragic consequences, we shall have no one but ourselves to blame.

8. Foreign aid as a subsidy to nationalization

- ▶ Foreign governments have used our money to fatten nationalized industries
- ▶ Italy refused private capital from America but took aid dollars
- ▶ European countries have reduced their public debts with our help

IN COUNTRIES WHERE nationalization programs have long been under way, it is evident that postwar financial aid from the United States has assisted the movement.

Socialization in Western Europe

Since World War II socialism has been encroaching upon the free economies of Western Europe, Eastern Europe, and Asia.

The war brought much havoc to normal economic relationships on the European continent. Physical plant, population, property relations and emotions all were radically altered. In the areas of Europe occupied by the Germans, property owners had been liquidated, currencies were all but exhausted.

Because of the disruptions caused by six years of conflict, the people were weary of war, uncertainty, unemployment, and other dislocations resulting from conflict. The war had bred a reliance upon government for the necessities of life and radical groups expected their demands to be met in return for the cooperations they had given in the war. People seemed more concerned over personal security than anything else. Their spirit of initiative and self-reliance appeared to be shattered.

As a result of these conditions, the countries of Western Europe have relied upon programs of nationalization of industry, particularly basic or key industries, as a partial answer to their economic troubles. Private capitalism has lost ground.

It is true that in most of Western Europe the railroads, the postal service, telephones and radio communications, and many public utilities were public enterprises before World War II.

While the degree and intensity of nationalization since the end of the war has varied from country to country, depending upon the amount of nationalization already undertaken, the economic condition of the country, the strength of the political parties advocating nationalization, and other factors, only a few countries in Western Europe have not undertaken some nationalization.

The large financial resources needed to implement socialization programs have not always been readily available. In some cases the effect of foreign aid has been to facilitate nationalization and socialization schemes already under way.

During the war, of course, aid funds were employed exclusively for the defeat of Germany and Japan. The really perplexing questions arose after the war. Specifically, does our financial aid support nationalization programs in the recipient countries?

Clearly, the answer is yes. Although it is true that the degree to which the success of such programs should be attributed to foreign aid cannot be determined, it stands to reason that nationalization programs have been aided, both directly and indirectly, by the postwar financial assistance from the United States.

[EDITOR'S NOTE: *America has*

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spent $64 billion on foreign aid since World War II. The Mutual Security Program for fiscal 1957 earmarked $527 million for economic aid purposes. Other money has gone into direct military assistance, to refugee aid and other channels.]

About half the national income of the United Kingdom is presently being spent by the state.

When the Labor government came into power in 1945 it embarked upon a broad program of nationalization and a cradle-to-the-grave program of social security. A radical rebuilding of the economy along socialist lines was undertaken, notwithstanding the desperate financial situation of the country.

Since 1945, when the program was initiated, millions of pounds sterling have been spent to pay for the property of industries that have been nationalized.

A substantial proportion of our nonmilitary aid has gone to nationalized industries in the United Kingdom and other Western European countries.

During the years 1940-1951, when most of the postwar nationalization was undertaken, with Lend-Lease, emergency relief, the loan to Britain, the Marshall Plan, military aid, the North Atlantic Pact, and other programs, the total of American wealth distributed throughout the world has been about equal to the present national wealth of Great Britain.

What did Western Europe do with these billions? We sent them food, fuel, raw materials, machines, and even permitted some of our aid to be used to retire their public debts. With the aid provided, we built for them new factories, new power houses, and modern roads.

We restored their railroads, we built irrigation works, and we provided aid for agricultural programs in their colonies.

Some people emphasize that much foreign aid has been granted to facilitate the disposal of our surpluses, especially agricultural surpluses. In the back of the minds of such people appears to be the thought that, because certain products are in oversupply in the United States, they are no longer wealth and hence no longer valuable.

Whether or not the products that we give away are surpluses, they still are wealth. Although our plane of living has been rising while we have been extending aid, would it not have risen more had we employed in our own country the wealth that we have given away?

Could not some of this money have been used to reduce our own huge public debt instead of making it available to other countries for that purpose?

Aid to nationalized industries

It has been said that, in our foreign aid programs, the nationalized industries have been given financial aid in preference to private industry. Roy Gillford, of the Detroit Board of Commerce, in testifying on the extension of European recovery, stressed that the Economic Cooperation Administration program placed almost everything on a government-to-government basis.

He stated that there was no desire on the part of the British Labor government to help private industry. Since many of the other Western European governments were in the process of nationalizing many of their key industries, they, too, would be likely to favor government rather than private enterprises. One of the main criticisms of the European Recovery Program, he felt, was that it started at the government level, rather than with requests from business, a practice which tended to shut out private enterprise.

France

In France the first big plunge into the nationalization of industry took place in April, 1946, when the state took over the production, distribution and transmission of electricity. A month later came the coal mines. Before the war the state was in control of the railroads, aircraft factories, civil aviation, the central bank, the Alsatian potash mines, and the manufacture of tobacco. It also had acquired the branch banks and, as a result of the war, it had fallen heir to considerable interests in the automobile (Renault) and chemical (Francolor) industries.

Once she had taken over these large industries France faced the problem of modernization and repair of war damage. Five years after the nationalizations by the French, the *Statist* reviewed how successful the program had been in coal mining and electrical production. It said:

"But what is abundantly evident is that Marshall aid has been the salvation of nationalized coal mines and electricity."

In 1952, Richard B. Frost pointed out in the magazine, *"Inside Michigan,"* that the taxpayers of the United States were paying for the construction of the French Genissiat project. This entailed huge power and navigational projects on the Rhone and Rhine rivers. In this article Mr. Frost stated that no consideration had been given to whether the project would be self-supporting or self-liquidating. The entire cost of

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the program was to be borne by the already overburdened taxpayers of the United States. Although the project was so costly that it was turned down twice by French taxpayers, the United States came to the rescue.

Italy

Edmund Stevens wrote a series of articles in the *Christian Science Monitor* in November and December, 1952, entitled "United States Aid and Italy," which shows how our assistance program has helped perpetuate government control of industry. He points out that:

"In Italy, nationalization has gone further than in any country this side of the Iron Curtain, not excepting Great Britain, which, after the war deliberately embraced socialism."

In the same article, Mr. Stevens states:

"Not only did (the original) framework of state enterprise survive the demise of fascism, it has grown far more rapidly since the war than it ever did under Mussolini, thanks, in no small measure, to American aid."

In Italy the aid program has failed to make credit available to private enterprise and to lower prevailing interest rates. Four main groups—FINSIDER, the state steel trust; FINMECCANICA, the state mechanical trust; the power interests (state and private combined) and the private automobile monopoly, FIAT—accounted for more than two thirds of all aid. Small business received only small amounts of help from the ECA. As Mr. Stevens points out, only $6.5 million out of $250 million worth of dollar purchase loans to Italian industry was parceled out in loans of less than $15,000.

In another article Mr. Stevens said that although the Italian state was refusing legitimate aid from American capital, it was receiving American taxpayers' dollars through ECA.

Congressman Daniel A. Reed of New York has cited another type of American aid that was given to the Italian government:

"I call attention to the railway station in Rome, Italy, financed by our American taxpayers. This great, monumental railway station is a mile long, into which you could put the Pennsylvania Station, the Grand Central Station, the Cleveland Union Station, and all the railroad stations of the Chicago area, and a few small stations left over.

"When our internationalists visit Rovigo, Italy, a town of 40,000 population, between Venice and Bologna, take a look at the tremendous railroad station. It dwarfs our railway stations in Albany, Rochester, and Syracuse, and it has private offices for everybody from stationmaster to lamplighter. This station was financed by our American taxpayers."

In 1953, a team of American businessmen, headed by F. C. Crawford of Thompson Products Company, made a brief survey of Italy. Their observations have been described as follows:

". . . Thanks to the $3.5 billion spent on that country, it is now 40 per cent better off than it has been in 2,000 years, but there has been no real fundamental improvement in the economy. For one thing, taxes are high, are based on the production-hour measurement, and work so as to keep (labor) costs high and wages low."

United Kingdom

The United Kingdom was governed by the Labor Party from 1945 to 1951. During its tenure of office a broad program of nationalization of industry and of social welfare was undertaken. Coal, electricity, gas, civil aviation, cable and wireless, inland transport, and iron and steel were nationalized. In addition, a broad program of social welfare, including free medical and dental care, family allowances (cradle-to-the-grave security) was undertaken. After the Churchill Conservative government assumed office in October, 1951, iron and steel and the road transport section of inland transport were denationalized.

There seems little doubt that American aid to Britain has aided their socialization program either directly or indirectly.

Official spokesmen for the Labor Party as well as for the Conservative Party have frequently voiced the need for American aid to carry on the program of the British government. Sir Stafford Cripps, when he was Chancellor of the Exchequer in the Labor government, stated this clearly:

"Recovery in Britain is not complete and its achievement depends on continued American aid. There can be no doubt that Britain needs American aid. We can speak of our recovery being complete only in the very limited sense that our production is now back to the levels, indeed substantially above the levels, of prewar production. . . .

"The continuation of American assistance is, therefore, a vital element in our progress toward full recovery. Moreover, aid to Britain is essential, not only to our own recovery, but also the recovery of Western Europe."

Winston Churchill, Conservative Party leader, caustically criticized

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the Labor government for its claims of the prosperity it was creating, while all the time the real prop under the economy was American foreign aid. Following is a representative statement:

"The socialist government have become dependent upon the generosity of the capitalist system of the United States."

In 1950, near the close of the Marshall Plan, the Conservative Research Bureau stated:

"The Washington loan and Marshall aid from America are, of course, the two factors which, ever since 1945, have buttressed the British economy and shielded it from the more disastrous consequences of Socialist incompetence and misrule."

Counterpart funds

Active withdrawals from counterpart funds as of Dec. 31, 1955, were $9,681,500,000. Of this total only $1,697,200,000 was used for military purposes.

Promotion of production, $4,334,800,000, was the largest single item in this program. Much of this huge total contributed directly to the nationalized industries, particularly in such fields as coal mining and transportation. The French coal mining industry received $306.2 million of counterpart aid, while the British coal industry received only $400,000. The railroads of France benefited from $125.1 million of counterpart funds, while the British received $6.3 million.

Perhaps the greatest assistance counterpart funds have made to the nationalized industries of European countries is in the retirement of the public debt. Foreign aid has been used to retire $2,510,700,000 of the public debt of European countries.

This means that European countries have been enabled to retire part of their public debt and use the money so saved for any type of program that they might desire. Following is a list of countries which have used counterpart funds to retire their public debt:

Austria	$ 12,500,000
Denmark	130,000,000
France	171,400,000
Netherlands	197,400,000
Norway	292,700,000
United Kingdom	1,706,700,000
Total	$2,510,700,000

This is a unique position in world history. No government before has been willing to go deeper into debt to supply other nations with funds for the purpose of retiring their debts.

Naturally, the fact that nationalization and social welfare programs have increased the national debt of European countries, while we are permitting them to retire this debt with counterpart funds, has troubled many Americans. Sen. B. B. Hickenlooper, of Iowa, has stated this feeling cogently:

"I am under the personal impression that it does not make any difference what the bookkeeping system is, if the national debt of Great Britain is increased by the nationalization, and we contribute dollars to the reduction of the British national debt, we are at least to that extent contributing to the nationalization program."

About 60 per cent of French counterpart funds were utilized in making loans to the various sectors of the French economy, as well as to the French overseas territories. These loans were made by government agencies, either directly in the case

U. S. Representatives who sponsored report

These are the Congressmen at whose request the report: "Adverse Effects of the Expanding Activities of the National Government" was prepared:

Ralph W. Gwinn, *New York*
Bruce Alger, *Texas*
Charles E. Bennett, *Florida*
Frank T. Bow, *Ohio*
Cliff Clevenger, *Ohio*
W. J. Bryan Dorn, *South Carolina*
Edgar W. Hiestand, *California*
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Charles Raper Jonas, *North Carolina*
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Errett P. Scrivner, *Kansas*
Lawrence H. Smith, *Wisconsin*
Wint Smith, *Kansas*
John Phillips, *Former congressman*

of nationalized industries, or through the normal banking channels in the case of private industry. According to the task force report on Overseas Economic Operations of the Commission on Organization of the Executive Branch of the Government, "the major portion of the loans were made to nationalized industries."

U. S. foreign aid has permitted use of budgetary resources for socialization

Numerous writers have attested to the fact that the foreign aid has been the deciding factor in encouraging social experimentation by European nations.

Charles H. Wolfe has stated the reasons that Europe needed our aid, as follows:

"Why was it, at the start of the Marshall Plan, that European countries appeared to need U. S. dollars so urgently? Because, ordinarily, heavy sums were being spent on armaments, on subsidies to the nationalized industries that were running a deficit, on food subsidies, and on increasing pensions, family allowances, and other forms of social security.

Melchior Palyi, American writer on economic topics, agreed that our financial assistance was necessary before the socialization programs could be carried out, saying:

"As American aid during the war saved the communist regime in Russia, and enabled it to become a threat to our national security, so American aid after the war made possible Europe's collectivistic and semicollectivistic experiments. It is a reasonable inference that, without American dollars, the planners of Europe would have had to curtail their schemes, and Europe would have lifted itself up from the war by the simple and effective process of going to work and conserving its capital."

Even European economists have been cognizant of the relationships. Wilhelm Roepke has written:

"It is a bit of irony that the Marshall Plan, which should have pulled Western Europe out of the muck of collectivistic, nationalist economic polity, has threatened to create a new supercollectivism on a superstate level. More than that: It runs the danger of becoming an economic planning machinery which will provide a powerful incentive to the various national collectivistic systems, either by strengthening the existing dyed-in-the-wool collectivistic government, or by forcing other governments which are either ready to give up bureaucratic planning or so far have been able to resist it, to accept

a collectivistic controlled economy. Indeed, as a result of the American Marshall Plan, an international planning bureaucracy is about to be created which is the most valuable help for the national planning bureaucrats. How, through this means, the European economies can be freed from the collectivistic paralysis and disorders is a secret which seems to defy solution."

One official of the ECA admitted as much (with respect to Great Britain) while he was testifying before a congressional committee:

"We are providing financing for the import of items and equipment for certain nationalized industries in Britain. In particular, we are financing the import of mining machinery for the coal industry, and the coal industry is a nationalized industry. It was nationalized well before the ECA came into existence, so there is a case where, in a sense, it can be said that the ECA has direct contact with nationalized industry in Britain."

9. Adverse effects of bureaucracy on agriculture

- **Government stockpiling is a depressing influence on farm prices**
- **The government's price manipulation stimulates excess production abroad**
- **Production for government rather than the market reduces opportunity**

THE ADVERSE EFFECTS of the growth of government farm price supports and controls are well stated by Secretary of Agriculture Ezra Taft Benson in his book, "Farmers at the Cross Roads," and by a committee of outstanding agricultural economists in a pamphlet, "Turning the Searchlight on Farm Policy."

Harmful effects of high, rigid price supports

Concerning the effects on individual initiative and economic progress, Secretary Benson writes:

The farmers' basic problems are due in large part to government price and acreage control policies. These took away the initiative of management, making it impossible for farmers to make the most efficient use of their machinery. Continued indefinitely, these policies would have driven free farmers to a condition of peasantry.

The high, rigid price supports were never responsible for the high prices the farmer received during the war periods. Prices were higher than the supports.

But the continuation of supports after the war has had a most harmful effect. Their principal result has been to pile up, in government bins, surpluses of farm products that have hung over the market like the sword of Damocles.

Stockpiling toward catastrophe

The Commodity Credit Corporation has almost $9 billion invested (autumn, 1956) in price support inventory and commodity loans—and this in spite of aggressive disposal programs under which this Administration has moved more than $5.5 billion worth of surpluses. Without this disposal the government would have more than $14 billion worth of agricultural products on hand. As it is, warehousing charges cost the American taxpayer (including farmers) $1 million a day.

This stockpile is a catastrophe to our farmers. It is a part of the world supply and as such is a depressing influence on farm prices. Department of Agriculture economists estimate that, without excessive stocks, the 1955 net farm income would have been 20 per cent higher. Therefore, at least $2 billion was lost by our farmers because of the surplus problem.

The surplus problem began with our price-supported basic commodities—wheat, corn, cotton, peanuts, rice and tobacco. Accumulations of these commodities led to acreage restrictions.

Nearly 30 million acres were diverted out of wheat and cotton.

These acres were shifted mainly

into feed grains. This shift accounted in large part for the increase in total feed grain production, and contributed substantially to the surplus of corn now in government hands. The resultant low price of corn and other feed grains encouraged added livestock production, which helped to bring on the low prices for hogs and feeder cattle in the winter of 1955-1956.

This illustration of how the cotton and wheat problems were shifted, in part at least, to feed grains and thence to hog producers entirely outside the cotton and wheat belts, demonstrates the interlocking nature of American agriculture. It is difficult, if not impossible, to impose an artificial adjustment on one sector without its having an impact elsewhere.

Rise of foreign competition

There are other important and undesirable consequences of this system of uneconomic price manipulation. It stimulated excess production abroad as well as at home. It encouraged substitute products to rob our markets both in this country and in other lands. It helped destroy our export outlets, as expanded production abroad robbed us of traditional markets. It even attracted foreign production to our shores to compete with domestic output.

Unless the basic problems are solved, these things together will bring upon our farmers the most stringent production and marketing controls in the history of American agriculture.

Controls versus initiative

These controls are the undesirable product of an uneconomic system of price fixing.

Producers of our basic crops have been cut back on production quotas required under the law to the point that many of them are nearly forced out of farming.

Midwestern corn growers operating under acreage allotments have found it difficult to have enough volume to operate efficiently. In 1955, for example, only about 40 per cent of the corn grown in commercial areas was within acreage allotments and was therefore eligible for price support. Most corn belt farmers voted with their corn planters against acreage allotments for their corn crop. They foresaw the futility of pursuing a price support and control program which would further restrict their volume.

There is no government program that can provide a decent living for a family with a cotton allotment of four acres, a tobacco allotment of

less than one acre, a wheat allotment too small for efficient use of necessary equipment, or a corn allotment cut down to the size that the rigid 90 per cent price support program would impose.

When a commodity gets into the fix of being produced for the government rather than for a growing market, its producer almost inevitably finds a ceiling placed on opportunity.

Paternalism leads to disaster

Secretary Benson presents the issue facing farmers as follows:

The issue is clear. Is agriculture to manage its own affairs? Or is it to be managed from Washington?

Which better serves the farmers' interests—and the nation's interests? Shall government subsidize agriculture in such a manner that it also takes control? Or shall government be kept in the role of servant—or partner—but never the master?

These are not put as rhetorical questions.

History teaches that when individuals have given up looking after their own economic needs and transferred a large share of that responsibility to the government, both they individually and the government have failed.

If we are to profit by the lessons of history and avert the fate of these other nations, we must steadfastly pursue and strengthen the course which leads toward greater individual freedom and toward more self-reliance.

These conclusions of the Secretary of Agriculture are supported by the group of agriculture economists who drafted the report, "Turning the Searchlight on Farm Policy." They pointed out that high price supports lessen farmers' drive for operating efficiency, and production controls tend to spread. They said:

The quest for prices maintained above the trend of market values leads to undue reliance on organizational power and political pressures. This tends to lessen the farmers' drive toward economically desirable adjustments of their industry (or component parts of it) to the other parts of our economy. It may even weaken the motive to make maximum improvement in operating efficiency.

If farm prices are supported at a higher level than that which the market would establish, control of production or/and marketing or use will have to be instituted in the effort to keep prices up to this artificial level. Those controls often rely on voluntary enforcement at

the start but move inevitably toward compulsory controls and substantial restriction of the farmers' freedom of choice.

Besides limiting freedom of choice and thus of flexible adaptation to local and changing conditions, these controls aim to restrict the supply of agricultural products available to the market. In the case of acreage allotments, any output lost in a given year is gone forever—except as fertility may be conserved by nonuse of land.

In the case of marketing quotas and related storage operations, the shrinkage in market supply is temporary (except for ultimate deterioration of diversion to lower uses), but not without its harmful consequences.

Production controls are ineffective if applied to a limited range of products and therefore tend to spread. If farmers are restricted in acreage of specified crops, they select their best acres, apply more fertilizer, and give better care to the crops so that outputs prove to be reduced less than planned. Idle acres are put into nonrestricted crops.

The administrative or legislative authority is prone to meet this situation by extending the list of controlled commodities. For this reason and also because jealousy is engendered by federal aid given to some producers and not to others, the area of production control tends to spread from a few staple or strategic commodities to embrace practically the whole field of agriculture. As the administrative area widens and the control machinery becomes more complicated, costs to the federal treasury greatly increase.

A high price policy hurts consumers

This group of agricultural economists also commented on effects on consumers:

A high-price program involving restriction of production hurts consumers, particularly in the lower income groups, because they cannot satisfy their wants as adequately as they could if productive resources were used more fully. Government price supports at high and rigid levels can work over a long period only if the amounts produced and sold are effectively restricted.

The controls needed will curb the freedom of farmers in using their productive resources in the most effective manner.

We do not believe that such restrictions and controls will serve national well being or provide the highest attainable real income for

either farmers or the rest of the nation.

Domestic production and foreign outlets disrupted by farm program

Prof. Carl Malone of Iowa State College has shown how our price supports have disrupted domestic production and foreign outlets for American farm products:

> The fixed-formula price-support program has had effects quite unanticipated by its designers. It led to a boost in potato production from around 350 million bushels annually in the late 1930's to around 450 million bushels in the late 1940's—during a decade when consumer potato demand was decreasing. The result: About a sixth of the crop in the late 1940's went to the government, mostly to be destroyed. . . . Thus, a fixed-formula price program may develop a big gap between what buyers are willing to buy and farmers are encouraged to produce. . . .
>
> With a storable export product, wheat, the 90 per cent of parity price support program has encouraged production and required a divorce of the American wheat market from world prices. The government often finds itself a major wheat buyer through the loan program, selling at a loss in the export markets to meet world prices. Then it backs up the supported domestic price with tariffs or quotas since the high American price acts as a magnet to supplies elsewhere.
>
> Where a product has ready substitutes, the fixed-formula 90 per cent price support may keep the price above the free-market level. A major effect, then, is to encourage production of the substitute product and discourage consumption of the supported product. Cotton price supports are proving a real boon to the rayon industry—butter supports to the margarine industry.

The cost of government farm programs, 1933-1955

The Office of Budget and Finance of the United States Department of Agriculture has prepared a detailed tabulation of the realized cost of all agricultural and related programs for the fiscal years 1932 to 1955. The total realized cost of programs primarily for stabilization of farm prices and income, 1932-55, was $9.8 billion.

REPRINTS *of this Nation's Business Special Service, "Adverse Effects of Expanding Government," may be obtained for 20 cents each, postpaid, from Nation's Business, 1615 H St. N.W., Washington 6, D. C. Please enclose remittance with order.*

PROFITS, PROGRESS

continued from page 37

wages rise irrespective of production. In effect, it has been learning to put profits into its costing systems as it learned it must include the profits tax.

But among the goals of business is the increasingly general aspiration of reaching the stage at which probable sales at given prices can be calculated. Then the prices can be picked which will yield a desired return on the investment. So, when wages recently rose more than output, prices rose, too, and profits in general were protected.

At first glance, therefore, it may seem that inflation has been built into the economic system. This is debatable but, even if it is so, three factors operate to reduce the danger.

1. This inflation, if it exists, will permit increased productivity. It need not check investment as seriously as did the income tax when it first became onerous.

2. The conditions that lead to price rises are new and changing. Although in specific industries or trades wage increases have been exceeding increases in productivity for some time, it was not until after 1953 that wages as a whole increased faster than both productivity and prices. Two conditions were necessary to bring this about: The market had to be strong enough to accept the new prices and higher wages had to appear to be cheaper than accepting a strike.

That situation has changed recently. In many industries cost is now the controlling factor. Metals offer an example. With rare exceptions the quantity and availability of any major metal now depends on the price the customer is willing to pay—not on what the producer wishes to charge.

The known free world reserves, plus built-in ability of established metals firms to locate new deposits and devise new methods of extraction and processing are such that abundance and confidence (not scarcity) characterize the prevailing situation in metals—now and for the foreseeable future.

Along with abundance has come versatility. Utility companies, for instance, have been developing methods for making aluminum more and more competitive with copper for several years.

The implications of this are obvious. Both copper and aluminum companies are going to watch their prices and their costs.

(continued on page 98)

Change to New **Westinghouse Mercury Lamps . . .** get up to **30% more light** on work areas

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YOU CAN BE SURE . . . IF IT'S

PROFITS, PROGRESS
continued

Similarly, the capacity to produce machinery, autos, consumer nondurables, or durables, has now in most cases caught up with demand. And, as demands are interchangeable in a high employment, well inventoried economy, competition between industries as well as within industries is now keen.

So the pressures which persuaded companies to raise wages because they could pass the higher costs along are now being countered.

3. Productivity now is rising in some of the industries where wages have increased rapidly. Construction, for example, has long been regarded as an industry with 1957 wages and 1913 productivity. Most bricklayers, for instance, lay no more face bricks today than were laid per man per day in 1913. Yet their real wages are much higher than they were in 1913.

But the construction industry is catching up. (See "New Techniques Promise Better Living" in NATION'S BUSINESS, December 1956.) By increasing productivity and improving design, it is taking its place among the progressive industries.

Improvements in office equipment, including stenographic, clerical, accounting, calculating, reproduction, storing and processing equipment, are promising cost reductions which will be of help to other industries and trades whose productivity had been lagging.

Improvements, actual if not recognized, are coming in other areas. Medical care, for instance, is reported as costing 37 per cent more than in the base years 1947-49. But $1.37 worth of antibiotics used today may save a $100 hospital bill that would have been incurred 20 years ago when such medicines were not in common use. Medicine is more productive, not just more expensive.

Pressures for increased productivity are spilling over into the more resistant areas of the economy. This does not mean that these pressures will dominate in all cases. But it does mean that the story is not as one-sided as it was a few years ago, and that increases in productivity are becoming more general.

Should costs nevertheless continue to rise more than output in enough important sectors of the economy to force decisions between lower profits per dollar of net worth and rising prices, the situation would be serious. Either would mean a reduced rate of progress.

Lower profits would discourage the flow of savings to plant and equipment. This would reduce increases in productivity. If wages continued to rise, it would still further decrease new investment. Prices would soon have to rise even though the original decisions were generally against increasing them. Real wages and the value of pensions would then drop. When in time real wages

and output got back in line, progress might be resumed.

On the other hand, if wage increases not matched by productivity increases were to be matched by price increases and we were to have steady mild inflation we would be in an even worse dilemma. Consumers are spending and saving at relatively stable rates because they have faith in our economy and in the dollar. Consumers are becoming more economically literate. They know about the cost of living index, and are familiar with escalator clauses. They can choose to save or not to save far more easily than was possible 30 years ago. Their faith in the dollar can be weakened more easily today than it could have been weakened 30 years ago.

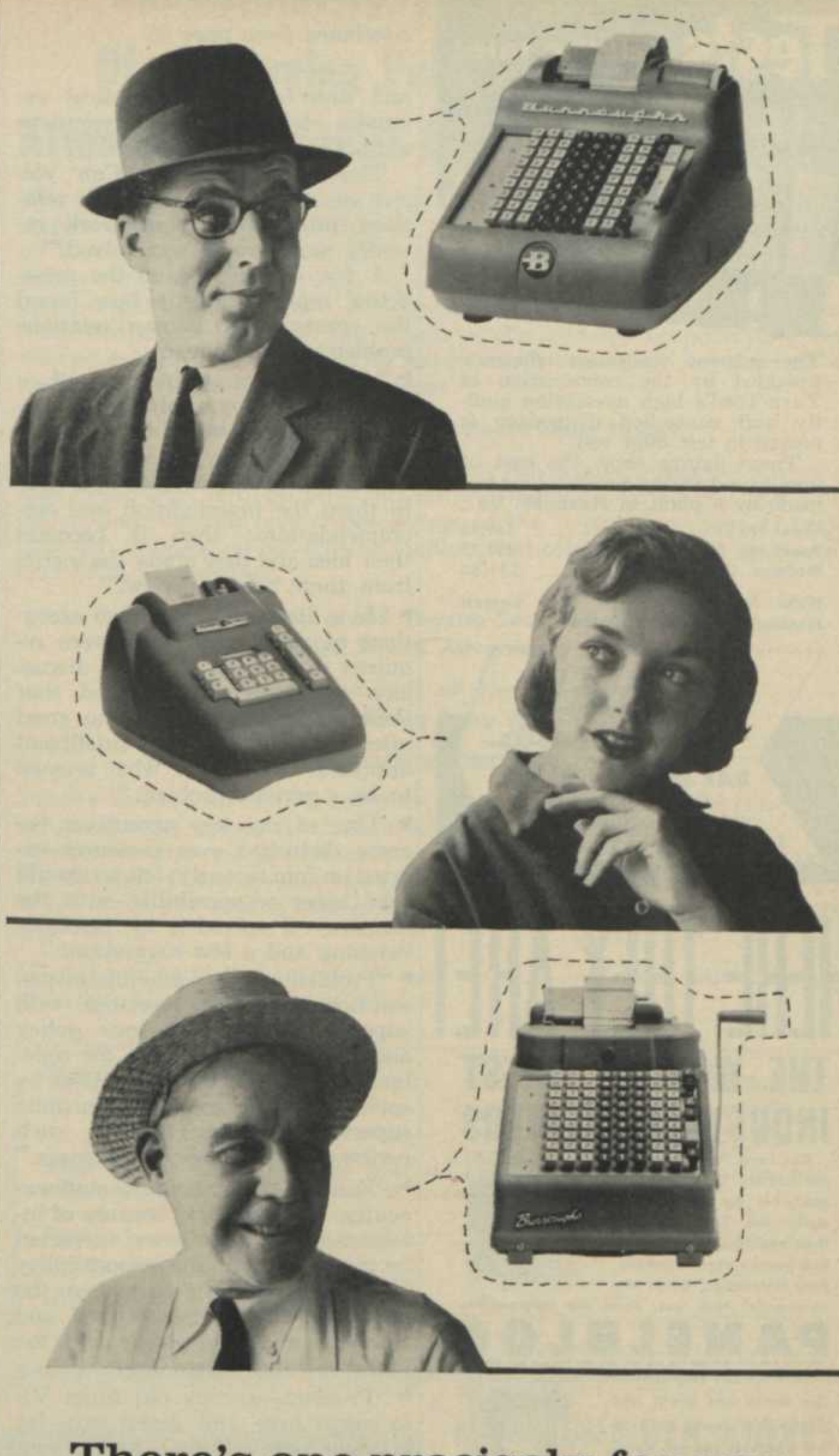
Should this faith be weakened now, their savings ratio could be changed. This could bring rather severe pressures on prices. If instead of saving seven per cent per year for investment purposes, people were to save four per cent because of their fear of the future value of the dollar, current consumer expenditures would be increased by that three per cent difference, but real funds for investment, except possibly internally generated business funds, would fall in real terms possibly by 10 to 15 per cent. We would have more demand without a corresponding increase in investment and in investment capacity. This would force prices up.

Local governments would find it increasingly difficult to borrow, and would have to raise interest rates and taxes. An originally mild inflation might become a serious inflation. So it is increasingly important to our continued growing prosperity that confidence in the dollar be maintained.

However, our people's capitalism would adopt protective devices. For instance, investments would shift from debt to equities. Insurance companies and pension funds as well as individuals would buy more stocks and fewer bonds, more houses and fewer mortgages. This would slow down the flight from the dollar. We would resume our progress. But it would be an expensive way of learning the lesson.

The fact that wage increases have exceeded productivity increases, therefore, does not mean that they can continue to do so indefinitely. The danger must be recognized.

But, if a choice must be made between maintaining profits with price increases and price stability with falling profits, the choice seems clear. The standard of living will rise faster with healthy profits than without them.—Robinson Newcomb



TOP MANAGERS

continued from page 35

and drew out some practical examples of the steps top executives are taking to solve them.

That question was, "Can you give an example of a human relations problem in your work recently and how it was solved?"

A few examples from the presidents' replies indicate how broad the spectrum of human relations problems is in industry:

▶ "Approaching retirement of a long-term employe; solved by a personal conference with him."

▶ "When I have a difficult problem with my key executives I turn over to them the investigation and recommendations; then it becomes their idea and they study the merits from their point of view."

▶ "In a dispute between two executives of equal rank they were required to have an objective discussion with me; it developed that their differences were not so great after all and that an intelligent approach could solve what seemed to be a serious problem."

▶ "One of my key executives became disturbed over pressures exerted on him recently; felt he should take lesser responsibility with the company; I solved it by intensive listening and a few suggestions."

▶ "Problem—salary administration; solution—series of meetings with supervisors explaining our policy and setting up a program for regular organized review of salaries by each supervisor and his immediate supervisor with a check on such reviews by the personnel manager."

▶ "Failure of outstanding staff executive to be effective because of intolerance and impatience; corrected by placing him in line responsibility for a year where he soaked up the understanding of frustrations and emotions affecting people and the job of getting things done."

▶ "Problem—getting old timer VP to move over and make way for younger men; solution—finding top-flight back-up man acceptable to the old timer and employing outside management counselor to help sell need for change."

▶ "I believe the root of nearly all human relations problems is misunderstanding, either self-misunderstanding or misunderstanding of the motives of other people; a frank, open discussion with all the people concerned has always effected a solution."

▶ "We have just introduced Negro white collar employes into our general office; integration was bucked at first but is now working out well; we solved this by pre-selling, careful selection and close supervision; now the problem no longer exists."

The value of calm, reasonable discussion of problems involving a clash of personalities is repeatedly mentioned in the replies on human relations. In most cases, it is indicated that the president acted as a kind of moderator; urged the two or more men involved in the trouble to air their grievances and take the other man's point of view.

Some of the solutions are novel. One president whose treasurer was "quite hard to know" solved the problem by taking up the treasurer's

hobby—horses. One answer to the question on human relations problems was "defalcation—got him another job (outside)."

As one of the presidents notes, an executive's work, in the final analysis, "is almost nothing but solving human relations problems."

Lawrence A. Appley, president of the American Management Association and a confidant of many company presidents, describes it in a somewhat different way when he calls management "the art of getting things done through people."

The overriding importance of an ability to get things done through people, to understand people, to communicate effectively with them, to draw out the best in them and to maximize their creativity not only as individuals but as a team is evident not only from the high rating given human relations, but by the presidents' estimate of the most important single benefit which they got from college.

The largest single number of respondents (almost 72 per cent are college graduates) said it was the ability to think, to analyze, and to solve problems. The ability to get along with other people—human relations—was close behind.

Human relations also shaped the answers to questions on whether the presidents had ever studied sociology, anthropology or psychology. If not, they were asked if they would like to. If they had, they were asked what value they received.

Of those who had taken the courses, most said they valued them for training in a human relations skill. Those who said they would like to study the courses indicated they thought the courses would help them to improve their ability in dealing with people.

Also significant were answers to the question, "What kind of academic preparation would you recommend today to a young man seeking an executive career in business?" The largest single percentage of executives suggested a liberal arts education.

Many expressed the view that only after a basic, broadening liberal arts education should the aspirant go into graduate work in business administration or engineering. Few urged young men to take business administration alone in their college program. END

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YOUR WRITING CAN GET ACTION

These seven steps will assure better results from your reports and memos

MORE AND MORE BUSINESS decisions are being made on the basis of a memorandum, a written presentation or report. This is an inescapable part of growth.

Expansion of companies, sales territories and product lines has made the former practice of presenting ideas across a desk impractical. Continued growth of business is likely to make the written word even more essential as a time-saving and useful instrument for advancing projects within an organization.

This kind of writing is not easy, even with practice. But there are ways of making it easier for both writer and reader. The steps include:

- Put idea in one sentence.
- Organize your thoughts.
- Keep it simple.
- Make it easy for the reader.
- Cut and condense.
- Ask criticism warily.
- Get eye appeal.

No executive should feel inferior because he can't sit down and dictate a clear, complete memo at one sitting. Experienced business writers go over their copy repeatedly. The simpler it reads the more time it takes. They spend hours doing what has been described as the only way to improve one's writing: applying the seat of the pants to the seat of a chair.

Put idea in a sentence

Assuming that you've done the requisite fact finding and legwork, write down the essence, the gist, idea, or theme of what you are going to say. The sentence doesn't have to be fancy, catchy or brilliant. It can be as simple as: How this company can make more money with fewer vice presidents.

Organize your thoughts

It is a good idea to think of your memo as being what you would say to your business associates, if you were talking across a desk. You might say, in effect, "This is what I propose we do, why we should do it, what it will cost, and how we can get things rolling." There you have a logical organization of thought.

In NATION'S BUSINESS for June, 1957, there was an article entitled "How to Simplify a Problem." Any problem was broken down into six steps: 1, identify the problem, 2, gather data, 3, list possible solutions, 4, test possible solutions, 5, select the best solution, and, 6, put the solution into action.

This pattern will serve for many memos or reports.

This is the place to consider what you can and can't say. There are inherent or built-in limitations on what any executive can say, even for internal consumption.

It is obviously unwise to go out on a limb unnecessarily or try to forecast the future. But many business memos are unduly cautious in places where they don't need to be.

Often an executive says, "We can't say that. It's against company policy." I always suggest that we check to make sure. Sometimes the policy does prevent us from saying something, but occasionally the policy in question turns out to cover something else. Or, a phone call may develop that the officer who formulated the policy has changed his thinking, or the company has done so.

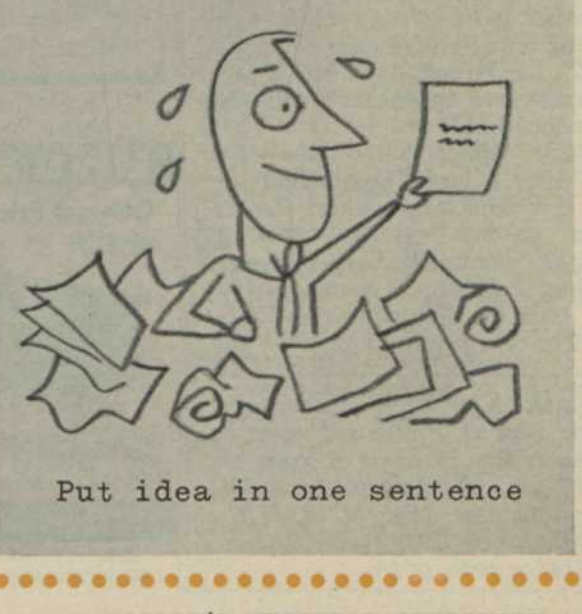
There are ways to say what you think, and still leave a door open for any future re-examination if that becomes necessary. As a rule, let the facts speak for you: "The evidence indicates . . ." "Statistics suggest . . ." "Research shows . . ." "Recognizing the limitations of our data, I recommend . . ." and then say what you want to say.

There are times when it is wise to use *may* or *might*, *could* or *should*, but don't overwork them.

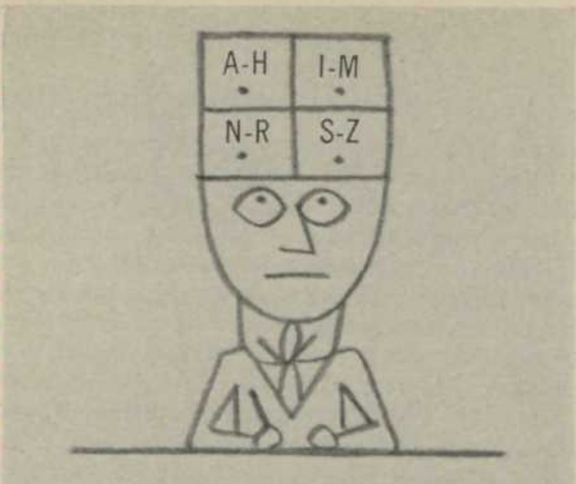
Make it simple

High-sounding language is no substitute for facts and ideas. Sound thought comes through on paper. Nor can you bridge or gloss over a contradiction of fact or conflict of thought with fancy language.

Some executives also feel that being impersonal



Put idea in one sentence



Organize your thoughts

gives dignity and some kind of institutional strength to their words. It more often results in vagueness, even stuffiness, rather than dignity. Impersonality also makes it easy for a memo writer to fall into the trap of the lofty generality and the noble statement of purpose, rather than the hard fact of reality.

The pronouns *I*, *you*, and *we* are in the spoken and written language to be used. All forceful writers have used them, from the Old Testament to Jefferson, Paine, Lincoln, and Churchill.

The second person, *you*, will help give your words what a corporation president described to me as *you-ability*—suggesting the two-way exchange of ideas. The first person plural, *we*, certainly conveys a picture of the management team, regardless of any private misgivings you may have on the point.

This will also help you avoid using impersonal subjects and verbs all the time, such as, "The corporation expects . . ." "Management thinking is . . ." "It is believed that . . ."

The business executive can also use the techniques of the professional writer to make his work come alive. He already knows many of them and only needs to be reminded of the others. They include:

a. *A good lead.* You should have an interest-arousing first sentence and first paragraph. Usually, a writer uses what strikes him as best, or strongest. It can be a meaningful quote, a clear statement of the problem and proposed solution, an anecdote or illustration which dramatizes the issue, a striking and simplified statistic, or a question addressed to the reader's self-interest.

You should also prepare a forceful ending since this will be the last impression you leave in your reader's mind. All the lead suggestions can also be considered for your ending. Select one which best serves your purpose.

b. *Quotes.* In this kind of writing, you will not get much help from a book of quotations, or dictionary. Talk to the people on the job. They may not fully grasp the big picture but they are often more articulate (or less inhibited) than their bosses.

An office worker, factory employe, or freight handler will often say something in language more vital and meaningful than anything you can think up. He may sum up in 10 words what you are trying to say in 100.

c. *An anecdote* or concrete illustration makes a point just as well in writing as in a talk. Name names, if desirable. Use people to illustrate situations, problems or attitudes. If you're talking about farmers, you'll usually do best (and keep from running all over the lot) if you concentrate on one farmer or a few. Wrap as much of your story as you can around him.

d. *Use simplified statistics,* but don't throw a solid block of figures at your reader. He doesn't like to plow through them any more than you do.

e. *Contrast*—setting the good alongside the bad, the efficient by the inefficient—is often made good use of by executives in their speeches. But they seldom use contrast in their writing, where it can do an equally impressive job.

f. *Establish credibility.* The characters we never forget in novels, plays, and films are people who have flaws as well as virtues. We all recognize that both people and organizations have flaws. Yet some executives tell me that it weakens their case if they include too many negative things or liabilities, along with the assets and strong points.


Avoid lofty phrases

On the contrary, to admit frankly that your project has a few weak points or that major obstacles must be overcome establishes credibility. Your reader is much more inclined to believe you, and go along with you.

If you know opposition to your ideas exists, it is usually best to state it, and your understanding of the reasons for it, and let the reader decide for himself. Don't belittle your opponents, or imply self-interest. Give them the benefit of honorable intentions, whether they have them or not. Also give proper credit to those who support your idea.

g. *Vary the length of your sentences.* Make some short, some longer.

You will probably not be able to use all these writer's

techniques in any one memo, but you can use those which are appropriate to your subject matter.

Make things easy for your reader

If you refer to some company policy, magazine article, or newspaper story, don't expect your man to remember it or look it up. He's busy, too. Quote whatever parts are pertinent. He could also remember it differently than you do. Insert, if you want to, a phrase such as, "We all recall that President Rowe said on June 15"—or "The company directive on this matter dated May, 1957, as you know, stated. . . ."

If you don't want to insert a long quotation or batch of figures in your memo, put it in an appendix.

This accompanying documentation satisfies the suspicious executive who double-checks everything, and impresses the more casual type who will merely glance at it.

Explain any technical or professional terminology as you go. No one will be insulted.

Above all, tell your reader what you want him to do.

When Dwight D. Eisenhower was president of Columbia University, I had the honor and pleasure of working with him on a number of matters. If possible, he liked a problem put to him in a memorandum, with supporting data appended. At the end of the memo, he liked to have the possible solutions listed, along with the writer's recommended solution, who would carry it out, and what would be the first action steps. He then initialed the solution he approved. The man who wrote the memo was thus committed to carry it out, or help carry it out.

Mr. Eisenhower took great pains writing and rewriting important letters and public statements. He once casually remarked to me on style, "I don't use many adjectives or adverbs."

Mr. Eisenhower's follow-up technique with memoranda is effective, but you can't follow it precisely, if you are shooting up from farther down the executive ladder. Yet it does suggest one way of initiating action, after your memo or report is completed.

It is hard to accept the fact that, after you have


Make it easy for reader


Boil it down

knocked yourself out on a project, your associates will not enthusiastically pitch in and help you, but in my experience they won't. In their minds you are still carrying the ball.

To have active support, you must be specific about how the reader can help get things actually started.

Cut and condense

A first draft is usually discouraging. The thought content will seem fragmentary and there will be holes to fill. The second draft should hang together better. The third draft will approach what you finally wish to say—and so on.

Cutting takes time, and is exacting work. Often it is better to cut whole sentences, and whole paragraphs, rather than to reconstruct or rewrite individual sentences. Sometimes a strong verb will do the work of a whole sentence and eliminate many adjectives.

Only amateur writers think that adding a lot of words like efficiently, promptly, thoroughly, thoughtfully add force to their manuscript.

But don't hesitate to use unorthodox, unusual, or aptly colorful words.

I recall reading one business report in which a personnel specialist was advising his client to "develop his blue chip men to the limit of their capacity; make up his mind about his maybe men; and improve or replace his poor performers."

We knew exactly what he meant.

Go through your manuscript word by word and sentence by sentence. Ask yourself of each, "Does this contribute directly to the telling of the story, does it lead directly toward my goal?" If not, the word, phrase, or sentence comes out. Some of your most cherished phrases or pet passages will fall victim to this harsh rule.

Another way to cut a text is to read it aloud. Your ear will tell you the excess words which should come out. Radio writers do this with their scripts. The method works especially well with speeches.

Make several trips through your text with a pencil. Cut a word here, strengthen a phrase there. You may

wind up with a total wordage cut of only 10 to 20 per cent, but this small cut can possibly give 100 per cent more effectiveness to your writing job.

Ask criticism warily

Submit your memo in draft form to other executives for criticism with caution, providing you know your man. To be blunt, he may try to steal your idea, or torpedo it if he doesn't like it. Most people will point out small things, such as misspelling, or typographical errors, but pass over main points of thought. However, submitting an idea in advance to some individuals may help obtain their support later. Never submit a rough or incomplete draft to anyone. Some people lack the imagination to visualize the end result. Submit it in almost-final form to a few people you trust. Don't expect to get many really thoughtful critiques.

If you send your memo to someone solely for his information, say so.

If you submit it to others for criticism, be sure that they understand whom the memo is for and what it is designed to do. Attach this data firmly to the draft itself. The recipient of your brain child may pass it on to someone else (after removing your accompanying explanatory letter) with something like, "Here's something that will interest you," or "Take a look at this." If you want that one person only to see it, say so plainly on the memo and in a transmittal note.

In many cases opposition arises, not from the thought or ideas in a memo, but from a simple lack of information as to its aims and audience.

Executives often will agree in principle, and solemnly assure each other that they see eye to eye on a policy but, when a text is put before them, they can disagree over almost every word and sentence. You must expect this. They will often argue semantics, and suggest minor changes until there is little time left for important substantive matters. So, if you desire criticism and comment on your memo, get it from your associates individually. Don't call a meeting.

It will help you obtain criticism if you ask your potential critic specific questions such as, "Have we overlooked any markets?" or "Will you mark any passages that can be cut?" I often suggest, in a transmittal slip, that the person give me his comment over the phone. Nobody likes to write any more than he has to, or go on record without further examination of the whole project.

How you keep company lawyers from taking the force out of everything you say is your problem. This applies more to external documents than internal ones. Some lawyers, who would blow their tops if you advised them how to prepare their briefs, will not hesitate to tell you how to write.

I'm oversimplifying here, but make sure your lawyer is expressing legal, not personal, editorial opinions. He may be a frustrated journalist.

Get eye appeal

Use the best quality paper and the finest reproduction process available. Men dislike reading carbon copies, if they have any choice. If your memo is reproduced from a typewritten page, have at least one inch margins all around. If typed single space, allow a double space between paragraphs, and make some paragraphs short.

If practical, break up your entire text into sections. A paper binder protects a memo, and enhances its appearance, particularly if it is to be kept.

One corporation insists on a summary of longer memos or reports on the title page, a helpful practice borrowed from scientific papers. In this summary don't tell it all—make the reader want to go on.

If your memorandum has been well executed, it will have alerted, informed, and convinced key people in your company. You can continue its distribution—it will reply to questions, answer objections. It will reach a great many more individuals in your company than you could possibly reach personally.—Jo Chamberlin

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HOW TO BARGAIN

continued from page 31

it is exceedingly difficult to find in the same labor market area exactly comparable work. Wages range all over the lot for relatively similar kinds of work.

Even if you could find comparable work in the same labor market area, important questions are, "What makes wage policy change? What makes a wage level change?"

I thought it was significant when General Motors came out in 1948 with a positive wage policy stating, yes, there are conditions under which wages should go up—if the cost of living increased and for added productivity.

Such a policy is tremendously important to this world-wide ideological struggle that is going on. In this country we cannot live with a wage policy that would presuppose decreasing standards of living.

To an increasing extent, then, I think that our larger companies particularly are stepping out with positive policies in this field of collective bargaining, and particularly in wages.

Have you any other examples?

One of the finest illustrations of management initiative in collective bargaining was in the negotiations between the United Automobile Workers and the Ford Motor Company on the union demand for a guaranteed annual wage.

The union was really seeking what can be called a "benefit certain, cost uncertain" plan. That is, the benefits were specifically made payable but the cost to the company would be uncertain.

As a result of studies over a long period, the company took the initiative and proposed a supplemental unemployment benefits plan which I would categorize as "cost certain, benefits uncertain." In any event, it meant the solving of a difficult problem in a way which met the necessities of both parties.

In my mind, Ford's approach in that instance was an outstanding example of constructive initiative.

What about other companies having to follow the pattern set by a larger company?

The pressures upon many of the medium and small size companies to follow a pattern is rather strong, and I suppose many of the managements of these companies want more of a voice with the union in solving problems that face them.

What causes what is being called wage inflation today?

I think the basic cause is the consumer's ability and willingness to pay higher prices.

It seems to me that, in a private enterprise system, and especially one in which decision-making is in the hands of private persons rather than the government, it becomes difficult to urge restraint in the pricing of one's product or services. We depend upon market forces as the primary regulator. Market force operates when the consumer feels that a price is too high.

Then industry and unions quickly come to task. There are unions today, you know, that have made settlements, and recently, without wage increases.

Why?

In one instance, it appears that an earlier experience indicated that it was not possible for the manufacturer to pass along a wage increase. He had to bear a substantial portion himself. As a result, profit margins were so reduced that job opportunities were adversely affected.

Unions must exercise restraint in their wage determining policies. It doesn't help a union to get high wage rates at which not to work.

What do you suggest for coping with wage inflation?

I share the view commonly held that a democracy should handle this problem through fiscal and monetary controls. Those devices are being utilized and I think have had an ameliorating effect.

What about wage-price controls?

As one who has had something to do with wage and price controls over the years, it seems to me unthinkable that they be contemplated except in case of dire emergency, such as war. Under today's conditions wage and price controls afford no avenue for assistance in meeting higher prices.

Is this problem confined to any particular industries?

I wouldn't say so. We need to give more careful thought to the government data indicating that most of our work force is now employed in service trades, rather than in goods production. It is likely that technological changes are more difficult to achieve in service trades than in the manufacturing trades. There is a difference in rate of wage increases between workers in industries where technological change is great and those where technology advances slowly.

Not so long ago a person in one of the needle trades told me, "We haven't been getting wage increases, so that it now takes 10 months of

(continued on page 110)

in your town, you need more well-informed spokesmen for business....

Businessmen who can speak out convincingly in behalf of business are in short supply.

In your town, as in every town, there is need today for more articulate spokesmen for business.

Needed are men who thoroughly understand the basic principles of economics—and who can explain to employees and to the public how and why the profit-and-loss system works.

Needed are men who can stand up and answer convincingly the arguments of those who hold that it is wrong for anyone to earn a profit and who want business more rigidly controlled by government.

The discussion-group plan for training business spokesmen appeals to businessmen. This past year, more than 300 Economic Discussion Groups were organized throughout the country. Those who participated were enthusiastic about what they gained for themselves and for the good of business. The Group shown here was sponsored by the Waterbury, Conn., Chamber of Commerce.

To help you and others meet this need, the National Chamber has worked out a plan for training and educating more able spokesmen for business. The plan is practical and simple.

The National Chamber helps firms, colleges, local chambers and trade associations set up Economic Discussion Groups. Each group is made up of local business, professional and civic leaders.

They meet together once a week—usually for 17 weeks—to study the fundamentals of free enterprise, and to learn how to express themselves more effectively about business, both in conversation and before an audience.

To each group, the National Chamber makes available four tested-and-tried working tools:

1. **Workbook**— A booklet showing step by step how to organize an Economic Discussion Group and how to plan a successful program. No charge.

2. **Primer**— A streamlined textbook, "The American Competitive Enterprise Economy." Consists of 17 easy-to-read pamphlets, each dealing with one important aspect of the free-market economy.

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"The interest in, and the enthusiasm for, this course is very high. We have more people wanting to participate than we can accommodate."
James H. Beckham,
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R. F. Bahl,
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"One great value of the Economic Discussion Group is that the members of the group learn to recognize doubletalk. *Eco-topics* proved very helpful in illustrating the line of argument and the techniques of roundabout presentation, which it is so difficult to offset."
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Canisius College,
Buffalo, N. Y.

"I give my whole-hearted endorsement to this program. The experience of taking part in the discussion group gave me opportunity to refresh my thinking about free enterprise — and the knowledge gained was helpful to me in my work."
Sterling Nelson,
Area Manager,
Lincoln Telephone and Telegraph, Lincoln, Nebr.

"I recommend the program highly. The study material was in concise and informative form, and the discussions were both challenging and interesting. All of us ended up with a much better idea of what makes our economy operate, and a better appreciation of the benefits of our way of life."
Roy Strasma,
Home Loan and Finance Service,
Kankakee, Ill.

HOW TO BARGAIN

continued

my work, instead of eight months, to buy a second-hand automobile."

What is the solution?

I am not sure I know. But I do know that, in these industries which have been lagging in productivity, many see increased federal minimum wages as one means by which they should approach the problem.

I suppose the only solution is to have price decreases at the same time wages go up in industries showing great technological advance. Then the real wages of all of us will benefit through reduced prices. I am not saying that solution can be achieved.

What do you believe will be the trend in shorter working hours?

I would like to say first that I think the trend toward shorter hours in the past 10 years has been as strong as in any 10 year period in our history. That fact has been obscured somewhat because we have been taking reduced hours in a different form than heretofore.

In earlier years, reduced hours would occur by going from 48 hours to 44 hours a week, while maintaining the weekly wage—then from 44 hours to 40. Those steps were taken at a time when we had unemployment. Pressure was great to develop ways for spreading the work.

But cutting hours of work in that manner in time of full employment could decrease production.

In any event, during the past 10 years or so we have been gradually cutting hours of work by vacations with pay, holidays with pay, pay for jury service, sick leave and so forth. A two-week vacation with pay is equivalent to reducing the workweek by about an hour and a half.

Because of the impact of this form of reduced hours, I would guess that right now we are really working a weekly average that is closer to 35 hours than to 40. So I think the reduced hours movement is very strong indeed.

The question now arises as to whether we will revert to the earlier form of taking reduced hours, that is, by cutting the scheduled workweek.

Would shorter hours in periods of full employment be economically proper?

That depends on how the problem is approached. Just by way of a hypothesis, I suppose the impact would not be too great if scheduled regular hours were reduced to 38, say, with the opportunity to con-

tinue to work 40 hours a week so that overtime would be paid after 38 hours.

As long as work would continue to be done 40 hours a week or more, that would constitute a way of allocating wage increases. However, the critical aspect of such a step would only be deferred. Employers could anticipate that any subsequent cutback in hours to the newly established regular workweek would precipitate a demand for maintaining weekly take-home pay.

Do you think that the move will be in that form?

I wouldn't know, but it is obvious that the timing and speed of adjustment in these matters has to be in such a form as not to cause indigestible innovations. In a sense the problem as it has been posed by the labor unions is something like this: In the early thirties, because of widespread unemployment, a reduction in scheduled work hours commended itself to Congress. The 40-hour week had widespread support. Now the labor unions are saying, in effect, that technological change is coming along so fast as to raise the specter of unemployment again, so let's provide for spreading the work before we have to endure the actual burden of mass unemployment.

Suppose that we do not get any mass unemployment

That could happen. At the end of World War II all of the forecasts were for 7.5 million unemployed in 1946. Indeed some policies were developed to meet the anticipated unemployment. It never occurred. It is important, it seems to me, to approach this problem gradually.

What advice would you have for a businessman on this question of shorter hours?

I don't know that I am in position to advise a businessman, but anyone who watches the American scene closely is impressed by the steady decrease in hours for 150 years.

This has been a movement with various facets. Successive reductions in regular working hours were at first demanded and obtained so workers could better assume their citizenship responsibilities and to eliminate hours which were considered injurious to health. These objectives have now been achieved.

Shorter hours have also been used to ameliorate unemployment by spreading the work. With advancing economic progress, another facet has assumed importance—reducing hours to reflect a choice between more leisure and more goods.

I judge that this last-mentioned

HOW TO BARGAIN

continued

question of choice will continue. I don't know the point at which increasing leisure will result in diminishing returns to the average fellow like you and me. Perhaps the idea of greater leisure is overstressed. In any event, government figures, recently issued, indicated that, of the total work force, more than five per cent now have two jobs. Some people seem to be willing to take on this added work in order to buy that automobile and washing machine.

Do you mean some people would rather work longer and earn more pay to buy more things they want?

We know that, at time-and-a-half premium, most employes look upon the opportunity to work longer hours as a prized asset.

Vested interests in this opportunity are carefully spelled out in practically all labor agreements, and many employes protest through the grievance machinery when their right to get overtime work is infringed upon.

On the other hand, a relatively high daily wage sometimes contributes to increased absenteeism. It's not easy to generalize about the employe choice between leisure and goods.

Do you think that added leisure creates a demand for even more spendable money?

That could very well be. Maybe that is also why so many women are working. We really don't know too much about the relative desires for more goods and more leisure. I suppose it is essentially a personal matter and it is hard to generalize for a country of this diversity.

Should management be thinking about what to do about shorter hours demands?

Indeed it should. If one looks at industrial relations as a problem-solving device, then this trend toward shorter hours represents a problem of adjustment. I would expect management to develop its own ideas about how this demand for shorter hours can best be handled.

Isn't there a difference of opinion within labor as to how to take increased leisure time?

I understand so. After all, the problem of reducing scheduled hours of work is different in an assembly operation, for example, than in a continuous process operation.

The strength of this collective bargaining approach is that it permits solutions to meet different circumstances. One gets a feeling of the strength of collective bargaining in visualizing the various ways in which problems are solved. Passing a law to govern all industries would be like saying that everybody had to wear a size 9½ shoe.

One can see this working out in supplemental unemployment benefit plans, where the approaches in the different industries take quite different forms. But basically, the problem of how to deal with people laid off is a uniform problem which has had to be faced universally. Varying solutions have been found. I feel that collective bargaining offers greater flexibility in solving these problems realistically than can be got through the legislative approach.

Would a pattern of shorter workweeks established in collective bargaining make obsolete the Federal Wage-Hour Law?

The chances are that it would not. The widespread demand for a uniform 40 hour week resulted from the desire to meet the social problem mass unemployment created. That is not our problem at the moment. The shorter hours issue now has to do with sharing in added productivity at a time of full employment. It is obvious that in in-

dustries where you don't have technological advances to share, the problem of shorter hours has to be conceived in different terms.

One needs to differentiate, I think, between a drive toward shorter hours as a means of minimizing unemployment, and shorter hours as a part of the sharing in technological advance. They are two quite different drives.

Won't shorter working hours increase unit overhead cost?

Of course. We have to be concerned that, even if people work fewer hours, machines must continue to work the total necessary to improve our productivity.

It has been suggested that technological advance will proceed so rapidly that the shorter hours will be necessary to avoid overproduction. This is debatable, of course. My own view is that technological changes will not occur so rapidly.

Indeed it seems to me that we must deal with technological changes in case by case as they arise, because there will be no uniform development affecting all industry, all companies, at the same time and to the same degree.

What do you see as the challenge to labor relations today?

In my view, the most important question is how can we develop collective bargaining as a way men can work together in producing the goods and services we need.

When our country was first conceived, it was determined that controls should rest with the people and we developed political democracy.

As the years went by, and more people hired themselves out in our economy, the notion developed that, through their representatives, workers could participate with management in formulating the rules of industrial life. That was a rather idealistic concept.

The extent to which American industry has developed this new idea in a highly constructive way seems to me to be one of the great achievements of management in the past 20 years. I might add, an achievement of labor unions as well.

I suppose collective bargaining could fall short of what the public expects. I hope it will not fall too short because the alternative is likely to be government regulation.

For myself, I believe the alternative of government regulation is so repugnant that we will make collective bargaining work. Of course it is here to stay, and in my view, management has as great a stake as do the labor unions in making it a constructive force. **END**

ADVERTISERS IN THIS ISSUE • September 1957

The telephone "key town" plan, which Franklin Sugar Refinery has been using for more than three years with much success, being discussed by director of sales Edward S. Meell and salesman John L. Carr (left).

How to call on customers twice as often—at low cost

By combining personal visits and "key town" telephone calls, salesmen for Franklin Sugar Refinery of Philadelphia now talk to customers twice as frequently, at low cost.

Here's how the plan works: a salesman travels to town "A," calls on his customers there and telephones those customers in surrounding towns "B," "C" and "D."

On the next trip, town "B" is the "key town" and he telephones customers in towns "A," "C" and "D."

In this way he visits each customer twice a year and talks to him by telephone frequently between visits!

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HOW TO STOP RISING PRICES

PEOPLE ARE ASKING, "Will prices ever stop going up?"

So far they are more puzzled than resentful. Only a handful are out of the market because of spite. Only a few are out because they can't afford to buy.

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The decision to praise or punish is not always made wisely.

When it isn't, the people correct it eventually. Meanwhile the undeserving have a moment of glory and the innocent acquire scars to last a lifetime.

Should the growing awareness of price increases crystallize into a popular decision not to buy until prices come down, there will be scars enough for everybody—including those who make the decision.

Prices would come down. So would production, employment, total wages and profits, such as they are. It would do no good then to argue who was to blame for the high prices or what should have been done about them. Since production without markets would be pointless, men would be laid off, weakening union bargaining power and strengthening employer resistance to wage increases. Since workers are also consumers this would depress markets even further. By the time adjustments were made a lot of savings would be wiped out, important progress delayed.

None of this has to happen.

A new report by the staff of the Joint Economic Committee shows—although the Committee doesn't say so—the cause of rising prices. Once the cause is known the cure becomes obvious.

Using the years 1947 to 1949 as a base, the report shows that prices rose 1.6 per cent from 1953 through 1956. Output per man-hour increased 6.2 per cent. Weekly wages increased 11.9 per cent. Real wages thus increased 10.3 percentage points more than prices and 4.6 points more than productivity.

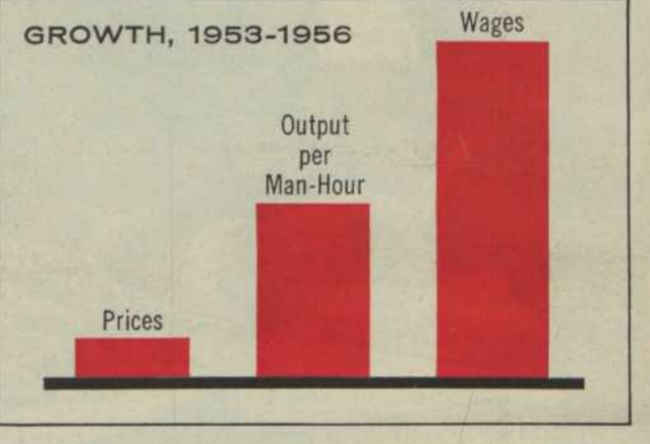
In the same period, for leading corporations in all lines, profits per dollar of net worth went from 12.4 per cent in the base period to 10.5 per cent in 1953; 11.9 per cent in 1956. In the same years profits as a per cent of sales went from 6.9 to 5.6 to 6.3.

These figures make plain that wage increases have been the greatest pressure forcing prices up.

Unions, which stand to suffer along with everybody else if consumers revolt, ought to ponder this fact when next they go to the bargaining table. A moratorium on wage increases until productivity catches up with the present scale would enable the country to hold the price line where it is.

Even when wages and productivity are in balance, keeping them that way requires more wisdom than is frequently shown.

If a man who has been working a machine that made 10 units of a product is given a machine which makes 20 units, the usual argument is that his wages can be doubled without increasing price. This overlooks the fact that, even if the new machine costs no more and requires no more service than the old one, twice as much raw material is needed to supply it, twice as many people are required to bring this material to the machine, twice as many to take the finished work away, to pack it, to distribute it and to sell it. And the people all along this line will demand increases to maintain the differentials that existed before the machine operator got his raise.



Union leaders know all this. They also know that many leading economists believe that unemployment is probably the surest cure for price increases.

That's a hateful cure. It could be the one we get unless unions ease their wage pressures.

Or unless employers more firmly hold their ground against them.

The striking design and brilliance of the floor above give this cafeteria an air of smart distinction. Marbleized colors shown are Chinese red, Burma ivory and Cinnamon.

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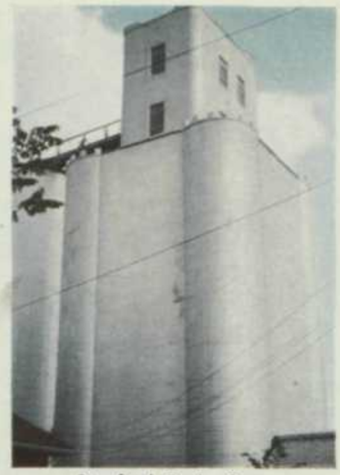

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